



LUND UNIVERSITY

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Master of European Affairs

Spring Term 2007

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Understanding the EU-Russia Energy Relations

Conflictual Issues of the ED and the ECT

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Abstract

Energy, being a very important aspect of international relations and a crucial element for the enhancement of national security, has both economic and geopolitical significance for consumer, producer and transit countries. In the course of last years the European Union (EU) – Russia energy relations, and in particular the conflictual aspects of the Energy Dialogue (ED) and the Energy Charter Treaty (ECT) have been paid much attention. The aim of this essay is to find out the reasons for conflict emergence which can contribute to the deeper understanding of EU-Russia energy relations. In order to conduct the research I examine and discuss the legal framework of the EU-Russia energy relations including the conflictual issues. Then I analyze these issues with the help of Sergei Prozorov's innovative theory of understanding conflict emergence which approaches conflict between the parties from an impartial standpoint. With the help of the interpretative model I came to the conclusion that the reason for conflict emergence is the clash of the deployed logics behind the opted for foreign policies of the EU and Russia which is conditioned by the asymmetrical integration and the difficulty of the respective parties to recognize each others interests as legitimate. The asymmetrical interdependence is found to be the factor that intensifies the conflictual issues.

Keywords: European Union, Russia, Conflictual Issues of Energy Relations, Energy Dialogue, Energy Charter Treaty

List of Abbreviations

CIS	Commonwealth of Independent States
EC	European Communities
ECT	European Charter Treaty
ED	Energy Dialogue
EPE	Energy Policy for Europe
EU	European Union
MS	Member State
PCA	Partnership and Cooperation Agreement
PSAs	Production Sharing Agreements
TP	Transit Protocol
UES	Unified Energy Systems

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1 Introduction

Energy is a vital element for human life and therefore access to its supply is crucial for the sustainability of modern societies. Throughout human history the demand for energy has continuously risen. Today, the societies heavily rely on fossil fuels to meet their energy demand – fossil fuels such as oil, gas and coal provide almost 80% of global energy demand. Continuous use of fossil fuels presents multiple challenges to the world community such as environmental, economic, geo-political and military conflicts.

In order to deal with these challenges the cooperation/integration between significant energy producer and consumer countries is seen as an important factor contributing to the establishment of sustainable environment and the ensuring of energy security.

The European Union (EU) and Russia is an example of the complex interplay of such cooperation where on the one hand there is a realization of mutual dependency and on the other hand contradictory visions on how to deal with the challenges of energy related issues.

1.1 Research Subject

Energy is an important aspect of the overall EU-Russian relations. Already in the end of 1960s the Soviet Union started its supplies of energy to Western Europe under long-term agreements. In this field in more than in any other EU and Russia have mutual interests. Today 60% of Russia's oil exports go the EU, representing over 25% of total EU oil consumption. In addition, 50% of Russia's natural gas exports arrive in the EU, representing over 40% of total EU natural gas consumption. Also, Russia is an important supplier of nuclear fuels to the EU.¹ The realization of this interdependency led to the establishment of the bilateral 'Energy Dialogue' (ED) in the year 2000. The purpose of this initiative is to pay attention to and deal with the "issues of common interest related to the energy sector".² In spite of the promising character of this initiative and the realization of the need for strategic energy partnership as well as mutual concern on crucial issues of energy security the progress has been modest if

¹ International Herald Tribune

² Johnson. D&Robinson. Paul, *Perspectives on EU-Russia Relations*, (2005), p. 27

not slow where the energy links are still limited to simple producer-consumer relations.

From the EU perspective dependency on Russia in energy supplies, the security of these supplies, environmental issues and liberalization of energy sector are the drivers of the EU's energy policy towards Russia. From the Russian perspective, the security of markets for oil and gas, the critical relations with the so called transit countries (Belorussia, Ukraine) and the nationalization of the energy sector is of vital importance for Russia's national security and economic development.

The numerous issues where the EU and Russia continue to disagree on are economic and geopolitical in nature. The culmination of these conflicting positions is reflected in the negotiations on the ratification of the Energy Charter Treaty (ECT) where the future development of the energy security issues depend to a large extent on the ability of the two parties to find common solutions appropriate for both sides.

1.2 Questions and Purpose of Research

This paper is a descriptive and explanatory research which is aimed at deeper understanding of the EU-Russia energy relations and specifically the explanation of why the conflictual issues occur. Therefore the main question of this paper is defined as follows:

Why do the conflictual issues in EU-Russia energy relations occur/have occurred?

In order to answer the main question this paper will consist of a descriptive part followed by an explanatory part.

By providing descriptive research this paper aims to present an in-depth examination of the specific details of EU-Russia energy partnership where the conflictual issues will be examined. In this respect the sub-questions of this paper are the following:

Why is the energy sector of importance for the EU and Russia?

How is the energy cooperation perceived by the EU and Russia respectively?

What is the role of the ED and the ECT in the EU-Russia energy relations?

What are the conflictual issues within the EU-Russia energy relations?

The descriptive part of the paper is an important supplement to the explanatory research of this paper as it provides an important basis for further analysis and interpretation of the conflictual issues in order to answer the main research question of this paper.

1.3 Methodology and Structure

This paper is a qualitative research which consists of three parts: theoretical, empirical and analytical. Each of the parts will be conveyed through the usage of different qualitative methods such as textual analysis of documents, as well as case studies of the particular aspects of the EU-Russia energy partnership, namely the ECT the ED.

The theoretical part of this paper is aimed at providing a useful theoretical framework which is constructed on the theories necessary for the answering and explaining of the research question. This paper adopts a deductive approach to theorizing the ideas about social phenomena. The essence of the deductive approach suggests that the researcher starts with an abstract logical relationship among theoretical concepts then tests the ideas against concrete empirical evidence.³

In order to achieve a maximum explanatory value in particular cases the researcher has to combine several theoretical models in order to create one comprehensive framework.⁴ In this respect, the theory of interdependence and an interpretative model are used for the analysis of the conflictual issues within the EU-Russia energy relations. The ambition of this paper is to apply and test an innovative theory to the understanding of the emergence and development of conflicts between the EU and Russia developed by Sergei Prozorov (a professor of International Relations at Petrozavodsk State University, Russia) by applying an interpretative model of conflict emergence to the particular field of the EU-Russia relations- energy relations.⁵

The empirical part of this paper is aimed at providing an empirical research of the EU-Russia energy partnership developments starting with the examination and discussion of the respective energy situations of the EU and Russia which provides necessary background for the understanding of legal framework of the EU- Russia. This is followed by the examination of the ED and the ECT. Within this part the conflictual issues of the EU- Russia energy relations will be examined and discussed. In this chapter the method of critical analysis of the primary and secondary sources will be used. The case study method with its aim “to describe the unit of analysis in-depth, in detail, in context and holistically”⁶ will be used for the examination of the ED and the ECT.

The analytical part of this paper is aimed at providing an analytical research of the reasons for the emergence of the conflictual issues presented in the empirical part. In order to answer the main question of this paper and to provide necessary explanatory grounds the ambition of this part is to analyze the empirical findings with the help of the suggested theoretical framework. In this respect the conflictual issues will be analyzed from the perspective of the opposition of the logics of sovereignty and

³ Neuman. W. L, *Social Research Methods: Qualitative and Quantitative Methods*, (2003), Pearson Education Inc., pp. 50-51

⁴ Roman.M, *The Implementation of International Regimes: The Case of Amazon Cooperation Treaty*, (1998), Uppsala, p. 114

⁵ Prozorov. S, *Understanding Conflict between Russia and the EU: The Limits of Integration*, (2006), Palgrave Mcmillan

⁶ Patton. Q. M, *How to Use Qualitative Methods in Evaluation*, (1987), Sage Publications, p. 19

integration i.e. through the interpretative model of conflict. The analysis of the EU-Russia interdependence in energy will be done with the help of the theory of interdependence.

In the concluding chapter the main findings will be summarized and the suggestion for the further research in the field of EU-Russia energy relations will be given.

1.4 Delimitations and clarification

Before the main research is conducted it is important to mention some delimitations of this paper. Since the main aim of theory is to explain some social phenomena it is important for the researcher to present a relevant theoretical framework for the analyses of a specific issue within the particular field of research. The choice of theoretical approaches cannot be right or wrong but rather evaluated in terms of being more or less useful.

The chosen theoretical framework of this paper is not aimed at giving all encompassing explanations of the emergence of conflictual issues of the EU-Russia energy relations, since there are a number of theories that can provide different explanations. The study of the conflictual issues is delimited to the analysis from the perspective of the opposition between the deployed logics (sovereign and integrationalist) behind the choice of foreign energy policies of the EU and Russia. Another delimitation of the research is that the conflictual issues of the ECT (Transit Protocol) are analyzed in detail and other issues more in general. The reasons for this are: first, the ECT is one of the central issues in the EU-Russia energy relations which represents the most disputable aspect that can exemplify the whole pattern of conflict emergence in the EU-Russia energy relations in the energy field and second, it would require a much more extensive research to analyze in detail all the existing conflictual issues.

There are some aspects that need to be clarified before the research is carried out. In this paper the EU is treated as a 'sovereign entity' (though not a state) which acts as a single actor in bilateral energy relations with Russia and as a result can have its own 'sovereign interests'.

The choice of interdependence theory is dictated by the fact that EU-Russia energy relations are characterized by a high degree of interdependence and is a necessary theory to analyze the interaction within energy relations and its role in conflictual issues.

As for the choice of Prozorov's innovative theory, there are some factors that can speak for the relevance of this theoretical model for the research of this paper.

First of all, it is a practice-based model of conflict emergence in EU-Russia relations which adopts the inductive approach in the analysis of particular EU-Russia

conflictual issues (i.e. it takes a particular area of relations and analyses it from an objective standpoint where none of the parties are pre-given any specific logic behind the choice of foreign policies). Another factor that provides useful grounds is that this model presents all the logically possible policy outcomes in the interaction of the two parties analyzed from the perspective of the opposition of the logics of sovereignty and integration.

By concluding this part it seems to be appropriate to give some remarks about my own motivation for the choice of the interpretative model of conflict emergence in the EU-Russia energy relations. While searching for the appropriate theoretical model of this study I encountered difficulties in finding a theory that could objectively approach the conflict emergence in the EU-Russia relations. When I finally came across Prozorov's innovative theory I realized that this approach reflects my own vision of how the analysis should be carried out. The matter is that this model is considered to be an innovative approach which combines insights from both classical and contemporary critical theories of international relations. Since it is a relatively new model it has not been explored in different areas of EU-Russia relations (it has been applied to the examination of the conflictual issues of the EU-Russia cross border integration and visa and passport regimes). The above mentioned makes it especially interesting and challenging for me to analyze the EU-Russia energy relations from the perspective of this model and to find some new interpretation of the existing conflictual issues within this field.

1.5 Sources

In order to conduct this study different sources will be used. An important role is given to the examination and the discussion of primary sources such as original documents such as treaties, agreements and energy policy strategies where the official positions of the respective sides are represented. Secondary sources such as books, articles, journals which provide insights into the previous research carried out by specialists in the energy field concerning the EU-Russia energy relationship. In order to provide an objective empirical and consequently analytical research the academic works of European as well Russian researchers will be used in the course of this study.

2 Theoretical Framework

In this chapter the relevant theoretical approaches will be presented in order to outline a necessary framework for further analysis of the empirical findings of this study.

2.1 Interdependence as an Analytic Concept

The notion of interdependence is a widely used concept in the political and economic studies of the international relations which attempts to analyze the complexity of cooperative and conflictual issues in interstate interaction. The notion of interdependence can be simply understood as "...mutual dependence...where dependence means a state of being determined or significantly affected by external forces."⁷ In world politics interdependence is referred to the situation which is characterized by reciprocity of effects among states or among actors within states. As an analytic tool, interdependence was defined by Joseph Nye and Robert Keohane as "where there are reciprocal (although not necessarily symmetrical) costly effects of transactions, there is interdependence"⁸ It implies that one state in some way affects the options of at least some of the others. As Keohane and Nye stress "the interdependent relations will always involve costs, since interdependence restricts autonomy; but it is impossible to specify *a priori* whether the benefits of a relationship will exceed the costs. This will depend on the values of the actors as well as on the nature of the relationship."⁹

The different patterns of interdependence affect patterns of the cooperation and conflict in the international system.¹⁰ The analysis of the costs and benefits of any interdependent relations brings in focus the fact that interdependence cannot be limited to a situation of evenly balanced mutual dependence. An uneven distribution of the benefits and costs lies in the heart of the asymmetrical interdependence which provides a source of power in the bargaining process over an issue for actors in dealing with one another.¹¹

In order to understand the nature of the asymmetrical interdependence as a source of power it is important to look closer at the peculiarities of its dimensions and the ways it can be manipulated in order to become a source of power.

⁷ Keohane O. R & Nye J.S. Power and Interdependence,(2001), Longman, p. 7,

⁸ Ibid ,Keohane & Nye, p.8

⁹ Ibid, Keohane &Nye, p. 8

¹⁰ Stubbs R. & Underhill G.R.D. Political Economy and the Changing Global Order,2006, Oxford University Press, p. 7

¹¹ Ibid, Keohane&Nye, p. 9

2.1.1 Asymmetrical Interdependence as a Source of Power

Power is defined as the ability of an actor to get others to do something they otherwise would not do. Keohane and Nye stress that when one considers the asymmetrical interdependence as a source of power one thinks of the power as control over resources, or potential to affect outcomes. In other words, it is a situation when a less dependent actor in a relationship often has a significant political resource, because changes in the relationship (which actor may be able to initiate or threaten) will be less costly to that actor than to its partner.¹²

There are two dimensions that are important for the understanding of the role of power in the interdependent relations, these are: *sensitivity* and *vulnerability*. Sensitivity involves degrees of responsiveness within a policy framework i.e. “how quickly do the changes in one country bring costly changes in another”. The sensitivity interdependence is created by interactions within a framework of policies where the framework remains unchanged. Sensitivity interdependence can be social, political or economic.¹³

Vulnerability can be defined as “an actor's liability to suffer costs imposed by external events even after policies have been altered” i.e. if the framework of policies could be changed and new and very different policies were possible what would be the costs of adjusting to the outside change.¹⁴ Vulnerability is particularly important for understanding the political structure of interdependence relations. It can affect the sociopolitical as well as politico-economic relationships.

This theory explains how manipulation of the asymmetrical interdependence can provide initial sources of power for either of the actors in the bargaining process over an issue. In order to understand the underlying logics behind the foreign policy choice of a particular actor as well as how such logics can affect the interdependent interaction bringing either cooperative or conflictual outcomes the interpretative model of conflict emergence is adopted in this paper.

2.2 Why an Innovative Approach to Conflict Emergence in the EU-Russia Relations?

There are several traditional approaches- liberal, institutionalist and cultural- which try to explain the conflict emergence and development between the EU-Russia. Prozorov argues that the main disadvantage of these approaches is that “...rather than explaining the descent and development of conflict between two parties, they are frequently themselves complicit in the articulation of conflict discourses and thus function more in a modality of the explanandum rather than the explanans.”¹⁵

¹² Ibid, Keohane&Nye, pp.9-10

¹³ Ibid, Keohane&Nye, p. 11

¹⁴ Ibid, Keohane&Nye, p.11

¹⁵ Ibid Prozorov, p. 11

The author further illustrates this argument by discussing the problematic aspects of the traditional approaches in explaining the conflict emergence in the EU-Russia relations.

The *liberal approach* which dominates the European academic thinking and increasingly being discussed in the Russian academic literature¹⁶ is characterized by the assumption of the inherently “benevolent nature of Russia’s integration with Europe.” The liberalists consider the EU-Russia international relations as *a priori* conditioned by the developments in Russian domestic politics, i.e. the success or failure of liberal reforms in Russia.¹⁷ It is largely Russia’s *own* practices in the domestic or international arena that are deemed to be conflict-generating. Thus, the main feature of the liberal approach to EU-Russian conflict is the “confluence of domestic and international factors in the argument that the key conflict-generating factor in the EU-Russia relations is the failure or slow progress of liberal reforms in Russia”.¹⁸

The *institutionalist approach* points at the underdeveloped institutional framework of the EU-Russia relations as the main source of the conflict. According to Bordachev, in this approach the conflictual issues may be resolved by establishing the institutional format of interaction, providing for the better communication between respective parties.¹⁹ The inefficiency of this approach, as Prozorov points out is that it is “incapable of theorizing a situation of substantive political divergence between Russia and the EU that takes place in an unproblematic communicative environment”.²⁰

The third approach to interpretation of the EU-Russia relations is *cultural*. This approach emphasizes the existence of the deep-rooted substantive cultural or civilizational divergences between Russia and the EU that produce conflictual issues. The main argument of the cultural approach is based on the “characterization of Russia as its historical ‘Other’” where the problems in implementation of liberal reforms is evidence of the overall impossibility of the convergence in the EU-Russia positions.²¹

These approaches explain conflict emergence in the EU-Russia relations either as “Russia’s ‘failure of transition’ to internalize the norms and practices operative within the EU” or through positing Russia as *a priori* ‘Other’ hence the impossibility of convergence in the conditions of cultural, ideological, economic, geopolitical and spiritual ‘meta-conflict’.²² As Prozorov points out these traditional perspectives on EU-Russia relations lack “the analysis of the formation and transformation of con-

¹⁶ Trenin, D, “The Changing Geopolitical Realities in Europe”, pp.181-184

¹⁷ Op.cit, Prozorov, p. 11

¹⁸ Ibid, Prozorov, p. 13

¹⁹ Bordachev, T, *Rossija i Evropejslij Sojuz: Trebuetsja Departament*, 2002, Briffing Moskovskogo Centra Carnegie, 4/3 (translated from Russian); see also Khudolei K, “Otnoshenia Rossii I Evropeiskogo Soyuza: Novye Vozmozhnosti, Novye Problemy”

²⁰ Op.cit, Prozorov, p. 14

²¹ Ibid, Prozorov, p.15; see also Narochnitskaya N., *Rossija I Zapad v Novyh Geopolitichaskix Realnostyah*, 2004,

²² Ibid. Prozorov, p. 15-18; see also Pursiainen Ch. *EU-Russia Cooperation- Challenges for the EU*, in (ed), Knudsen O, *Russia and the New Europe*, Conference Papers, 2006, pp.100-115

flictual dispositions in the course of the concrete EU-Russian interfaces that need not be determined by the anterior deployment of any given logic by either party “.”²³

As for the innovative theory of Prozorov, it combines the assumptions of traditional and contemporary theories in approaching the EU-Russia relations in attempt to explain conflict emergence. This theory argues that conflicts in EU-Russian relations are the result of the clash of principles of state sovereignty and international integration, which characterize the policies of both sides. The important factor is that it is a practice-based vision of EU-Russian conflictual that views EU-Russian relations as “irreducible to any single logic but unfolding in a more dispersed manner, which is deployed in different situations.”²⁴

In comparison to traditional theories, the innovative approach rests on the description of the structure of the conflict discourse in question and interprets this structure with reference to both the policy logics of the two parties and to the interactive process of the interface in these logics. This model approaches the conflict as “interface of policy discourses, in which the subject-positions of the parties are incompatible and conflictual dispositions are therefore enunciated or communicated.”²⁵ The interpretative model of conflict emergence states that convergences or divergences (cooperative or conflictual outcomes) between Russian and EU policy orientations may be conditioned by structural or interactional determinants.

The structural aspect refers to the foreign policy logic, opted for by both parties in relation to each other, where these logics can be either *integrationist* or *sovereign*. The interpretative model argues that *both* parties can deploy these two logics in their mutual relation, in different issues of their interaction. As Prozorov argues this assumption “paces the facile reading of the EU as squarely 'integration-oriented' and Russia zealously assertive of sovereignty”²⁶ and explains my motivations for the choice of this model as providing an impartial analysis of the EU-Russia ED conflictual issues.

The interactional determinant relates to how the opted for logics relate to each other in particular EU-Russia relations, i.e. whether the move of one party is 'matched' by the other or is ignored or rejected in the deployment of a different logic by the other party. These structural aspects can be defined as *equivalence* and *dissent*.

2.2.1 Interpretative Model of Conflict Emergence: Integrationist and Sovereign Logics

The basic feature of the sovereign logic may be understood in relation to the foundational definition of sovereignty. Sovereignty is manifested in three principles: independence, equality and unanimity.²⁷

²³ Ibid, Prozorov, p. 20

²⁴ Ibid, Prozorov, p. 20

²⁵ Ibid, Prozorov, p.21

²⁶ Ibid, Prozorov, p. 23

²⁷ Ibid, Prozorov, p. 76

Independence signifies “the particular aspect of the supreme authority of the individual state which consists in the exclusion of the authority of any other state.” Equality follows from the principle of independence: “if all states have supreme authority within their territory, none can be subordinated.” The rule of unanimity refers to the legislative function of the states in international decision-making: “all states are equal regardless of their size, population and power. The rule of unanimity gives each state participating in the deliberations and the right to decide whether it wants to be bound by the decision.”²⁸

Taking into consideration the fundamental definition that sovereignty is a necessary guarantee of a freedom of any political community, both of the Self and Other, and, since freedom always opens the possibility of conflict, any political community that strives for security must abide in its foreign policy practices by the logic of sovereignty. The fundamental presupposition of the *logic of sovereignty* adopted in the interpretative model is: “a conception of the space of international politics as necessarily open and pluralistic, lacking any kind of universal authority and hence prone to conflict between particularistic political communities in the ‘outside’ space of anarchy.”²⁹

International integration has been historically considered as a ‘peace project’ i.e. as a means to make “obsolete the occurrence of wars between sovereign states through the creation of a common framework that... creates conditions for a ‘thin’ international community, governed by the same rules, norms, and principles”. Cooperative interaction leads to the harmonization of policies and domestic identities, which make the sovereign state, give way to the ‘international state.’³⁰

To summarize the presuppositions of the *logic of integration* that the states may deploy in their foreign policy choices Prozorov identifies integrationist logic as: “... a conception that displaces the ontological ideal of sovereignty through the establishment of international linkages, organizations, regimes, institution and other structures of interaction and cooperation, which are expected to make obsolete the ontological presupposition of the possibility of conflict in international politics.”³¹

2.2.2 Interactional Determinants

The interactional aspect of the interface relates to how logics, opted for in the foreign policies of Russia and the EU, relate to each other in actual EU-Russian encounters. Such interactional determinants are defined above as equivalence and dissent.

Moves of *equivalence* refer to the convergence of policy logics, i.e. they indicate a match, or compatibility between Russia's and the EU's subject positions. As Prozorov suggests a situation of equivalence need not designate a necessarily cooperative

²⁸ Morgenthau cited in Prozorov, p. 76

²⁹ Ibid, Prozorov, p. 83

³⁰ Ibid, Prozorov, pp. 83-90

³¹ Ibid, Prozorov, p.93

outcome, but the incompatibility of subject positions. Besides the pattern of equivalence between such subject positions of both parties suggests that the parties can exist in relatively violent context, just as long as both parties in those contexts recognize the legitimacy of each other's positions and make no attempt to impose their own position on the other.³²

The situation of mismatch between the logics, deployed by the two parties, is conflict-generating by definition, since the subject positions of the parties are incompatible, which produces a situation of *dissent* on the part of one or both parties.

2.2.3 Matrix of an Interpretative Model

As Prozorov suggests, this theoretical model can be applicable to the analysis of *any* international conflict from the perspective of the opposition between the logics of sovereignty and integration. It presents a matrix of four possible avenues of the interface of parties within interaction: the parties in question may opt for either sovereign or integrationist logics and these in turn may be reciprocated by gestures of equivalence or dissent by the other party. This model with all possible outcomes is schematically presented in table 1.

Table 1. Interpretative Model of Conflict Emergence

An Interpretative Model of Conflict Emergence		
Deployed Logic	Response by Other Party	
	Equivalence	Dissent
Sovereign Logic	Mutual Delimitation	Exclusion
Integrationist Logic	Common Spaces	Self-Exclusion

Source, adopted from Prozorov³³, (2006)

1. The pattern of *mutual delimitation* is constituted by the occurrence of equivalence of the sovereign logics deployed by both parties. This pattern corresponds to the conventional understanding of foreign policies that constitute the international society of

³² Ibid, Prozorov, pp.96-97

³³ Ibid, Prozorov, p.99

sovereign states, in which integrative policies remain limited and do not in any way challenge the traditional mode of the constitution of the political community.³⁴ Cooperation in this pattern of interface is based on locating the lowest common denominator in the policy visions of the two parties, which serves as the ground for design and implementation of cooperative activities. The central principle is therefore *intersubjectivity*, understood as the assumption of fundamental equality of the two parties in communicative process.³⁵

2. The equivalence of the integrationist logics deployed by the parties towards each other results in the construction of ‘*common spaces*’, which may take many forms, from modest institutionalization of cross-border cooperation to the ultimate result of world unification. This pattern is conditioned by mutual consensus of the parties to open up their sovereign spaces to each other. In order for the ‘common spaces’ to appear this process must be conditioned by symmetric non-hierarchical integration. To understand the symmetric integration one should look at the asymmetric integration where there is a ‘subject-object’ asymmetry which contradicts the intentions of both parties to engage in equal intersubjective partnership and rather recalls the logic of hierarchical inclusion. In other words, in the mutual interaction aimed at integration either of the parties insists on its ‘rules of the game’ and by this installs clear division between integrating and integrated. These asymmetries can appear due to the absence of recognition of legitimate difference which, as Prozorov argues, distinguishes the logic of asymmetrical integration from the pattern of mutual delimitation of sovereignties.³⁶

3. The dissensual reception of the sovereign logic of one party by the other produces a situation of the ‘*exclusion*’ of the latter. As exclusionary policies of one party encounter the integrationist ambitions of the other, communication of disaccord becomes complicated by the exclusion of the *differend*³⁷, which intensifies the conflictual disposition. The excluded party may perceive the other’s failure to respond in kind to its integrative initiatives as an indicator of its being cast as a ‘threat’, while the excluding party may consider illegitimate or outright hostile any attempt to uncouple its own conventional unity by opening it up to the integrative project of a ‘common space’ with the Other.³⁸

4. The dissensual reception of the integrative logic of one party by the other generates practices of *self-exclusion*, whereby one attempts to avoid/escape unwelcome intrusion into one’s bounded space and one’s incorporation into ‘common space’ of the Other. Communication is threatened by the exclusion of *differend*, whereby the integrative logic of the other is considered in purely negative terms of the ‘assault on

³⁴ Ibid, Prozorov, p. 99

³⁵ Ibid, Prozorov, p. 138

³⁶ Ibid, Prozorov, pp. 160-163

³⁷ Loytard's notion of *differend* refers to the irreducible remainder, involved in the attempt to render the terms of one discourse within another, which entails that every 'inclusion' within a discursive field is always conditioned by foundational exclusion of that which in the terms of the system in question cannot be expressed. in Prozorov (2006) p. 98

³⁸ Ibid, Prozorov, p. 100

sovereignty' and the project of a 'common space' is rendered equivalent to intrusion or occupation.³⁹

As the author points out these asymmetric outcomes of integration are mirror images of each other. The exclusion of one party is equivalent to the self-exclusion of the other. The key characteristic of the pattern of dissent is the immediate establishment of the infrastructure of conflict. As the subject positions of the parties in question are incompatible, the potential for conflict escalation exists from the beginning. The dissenting parties do not recognize each other's positions as legitimate, rational or ethical and therefore do not perceive their own actions, which may obstruct or jeopardize these positions as in any way hostile and unjustified.⁴⁰

³⁹ Ibid, Prozorov, p. 100

⁴⁰ Ibid, Prozorov, pp. 97-98

3 The Energy Situations of the EU and Russia

This chapter proceeds by presenting a necessary background of the EU's and Russia's energy situations and answering the sub-question of this paper why the energy of importance for the EU and Russia respectively.

3.1 The Role of Energy in International Relations

Energy in the form of fossil fuels is vital for the development and sustainability of modern society. In previous times in history mankind was not dependent on energy to the same extent but with the age of industrialization the consumption started to increase dramatically and continued rising rapidly especially during the past decades. Consequently, the growth in global energy demand is considered to rise drastically in the future. Such a crucial role for the survival of any country today places the energy related issues such as the reduction of fossil fuel reserves, global warming and other environmental risks, geopolitical and military conflicts and the rising prices of fuel into the category of issues which can easily generate conflicts between the consumer, producer and transit countries.⁴¹

As a result of the above mentioned factors the energy security is of vital interest to states on the international political scene. Therefore, energy is a strategic good both for producer as well as consumer countries. In the last couple of years, both governments of consumer and producer countries have been concerned with security of supply and demand. However, the policies to fulfill their strategic interests differ significantly for both parties, because producer countries rely predominantly on government intervention, while consumer countries rely mainly on a market-based approach with certain government incentives.⁴²

There are also distinctions between energy policies of producer and consumer countries. In consumer countries the energy policy entails three important elements: low supply costs, security of supply (continuity of supply) and the importance of environmental aspects.⁴³ These crucial factors are shared by to a large extent among consumer country's governments and international organizations.

⁴¹ Muneer.M.T.A, "Energy Supply, its Demand and Security Issues for Developed and Emerging Economies", (2005), Elsevier Ltd, Science Direct,

⁴² Study on Energy Supply Security and Geopolitics, Final Report, January 2004, by Clingendael International Energy Programme (CIEP), The Hague, EU official site

⁴³ Ibid, Study on Energy Supply Security and Geopolitics, Final Report, January 2004

In contrast to consumer countries producer countries rely on energy exports for a considerable part of their GDP. This places the energy producer countries in a group called resource-based economies which is defined as “economies where natural resources account for more than 10 per cent of GDP and 40 per cent of exports”.⁴⁴

Besides, these countries are facing pressure by consuming countries, which they regard as meddling with their ‘internal’ affairs. In addition, subsidies, taxation, as well as the costs or revenues of state-owned companies play a significant role in influencing the country’s budget. All of the elements discussed above regarding the role of energy in international relations signify energy as a vital good to nations, within the sphere of the geopolitical world order. In this connection, Robert Larsson argues that usage of energy policy as a political or economic lever especially by producing or transit countries can be achieved through several tools such as: supply interruptions (total or partial), threats of supply interruptions (covertly or explicit), pricing policies, usage of existing energy debts, creating new energy debts and hostile takeovers of companies or infrastructure.⁴⁵ Thus, energy is not only a strategic economic good but also a political good.

Having presented the main features of the role of energy in international relations the next section of this chapter focuses on the respective energy policies of the EU and Russia and highlights the significance of energy security i.e. security of supply and security of demand and transit for their energy partnership.

3.2 The Energy Situation in the EU

The EU is moving towards more increased dependency on imports for oil, gas and coal supplies at the same time as renewable and nuclear power is estimated not being able to meet this shortfall/deficit. The last two enlargements have contributed to this difficult situation in the energy sphere. Since the 1973 and 1979, oil price and supply crises the energy supply security has been a prime political and economic concern in international relations.⁴⁶ Thus, as the EU is facing continued deterioration of its energy security as a result in the decline of indigenous production the extent to which the problem will rise depends to what degree renewable energy supplies will develop. The forecasts of the European Commission state that the EU’s energy import dependency might rise to 70 % by 2030.⁴⁷ According to the European Commission this is due to the fact that high dependence on oil and gas will continue because even though the alternative (sustainable) energy sources will be growing they will still not be able

⁴⁴ Ahrend.R, “Sustaining Growth in a Resource-based Economy: The Main Issues and the Specific Case of Russia”, (2005), Economic Commission for Europe, Geneva, Occasional Paper No. 6, United Nations

⁴⁵ Larsson.R, “Russia’s Energy Policy: Security Dimension and Russia’s Reliability as an Energy Supplier”, (2006), FOI – Swedish Defence Research Agency, p. 177

⁴⁶ Op. cit, Johnson,(2005), p.179

⁴⁷ European Commission Final Report in the Green Paper, (2002) in Debra Johnson, Perspectives on EU Russia Relations, (2005), p. 180

to satisfy the growing energy demand of the EU. In addition, the distribution of proven oil and gas reserves in the world and the advantage of their exploitation indicate that future EU oil and gas supplies will progressively become more geographically concentrated on Russia, the Caspian Sea region and the Persian Gulf. Therefore, in the coming decades security of oil and gas supplies will continue to be an important issue.⁴⁸

To illustrate this point it can be observed that the EU is since many years relying on imports for almost 80% of oil supplies and in 2002 the import came mainly from OPEC 38%, Norway 24% and Russia 22%. Thus, as the EU's dependence on oil imports rises it is estimated that it can reach 90% by 2020 with imports coming from unstable and hostile areas. Concerning the gas reserves of the EU they are quite limited and calculations show that at current production rates they will last 20 years. In 2001 the EU had to import around 43% of its gas consumption. The same year 39% of imports came from Russia, 26% from Norway and 25% from Algeria and 10% from other sources. In contrast to oil and gas the EU has large coal reserves but production has been to a large extent stopped in several MS due to the large cost of coal extraction which is three to four times the world market price of coal. Therefore, the governments of the MS do not subsidize domestic production.⁴⁹

The next point of the study will be the recent developments in the EU Energy Policy which highlight the critical issues of the European energy security.

3.3 The 2007 Energy Policy for Europe

At the 2007 Spring European Council the EU has taken a firm stand on the fight against global warming. The heads of state and government of the EU have agreed to adopt an Energy Policy for Europe (EPE) which goes further than only having the aim of enhancing competitiveness and securing energy supply, and adds strong commitment to save energy and promote climate-friendly energy sources.⁵⁰

Other important initiatives identified in the new EPE are the following: the move to competitive and open European electricity and gas markets that would enhance fair energy prices and savings if the right policy and legislative would be implemented; increasing the use of renewable energy with the aim to triple the share of renewable energy from under 7% currently to 20% in 2020; the aim to develop new technologies that will help in replacing the oil and gas dependency for the future as they will deplete with time or become too expensive; the aim promote solidarity among the MS in case of an energy crisis by helping with diversification if a MS is e.g. dependent on a single supplier or improving the EU emergency oil stock system, making sure that

⁴⁸ Ibid, Study on Energy Supply Security and Geopolitics, Final Report, January 2004

⁴⁹ The EU Energy and Transport in Figures Official Document, (2003), European Commission, Directorate-General for Energy and Transport

⁵⁰ European Commission, "Energy for a Changing World: An Energy Policy for Europe, the need for action", Directorate-General for Energy and Transport, Brussels (2007),

nuclear power if used in MS is safe and secure in keeping up the highest standards of safety, security and non-proliferation.⁵¹

As the EU faces increasing import dependency, higher energy prices than before and the consequences of climate change the leaders of the EU are stressing that a common European position and the ability to speak with one voice on international energy issues is crucial in ensuring a sustainable (active combat of the climate change), secure (improved coordination of EU's supply of and demand for energy within an international context) and competitive (enhancing the efficiency of the European energy grid by creating a truly competitive internal energy market) energy supply.⁵² Andris Spruds stresses that the present European energy market has undergone the 'paradigm shift' from being fully state controlled sector to a sector with an increasing presence and domination of market forces. However, there are differences regarding the degree to which EU countries have liberalized and deregulated their energy sectors. That is why it is quite difficult for them to reach common understanding on how to deal with energy related issues especially concerning the security of energy supplies. Therefore, as Spruds suggests the MS traditionally prefer to consider these security issues as part of their national security.⁵³

The issue of the security of energy supplies is vital to the EU and is identified in the EPE as well. Studies show that if energy trends and policies remain as they are, the EU's reliance on imports will increase from half to almost two thirds in 2030. In this scenario around 84% of gas would have to be imported, compared to 93% of oil. However, there are concerns about from where and how these supplies would come. In addition, a worrying element is the fact that several EU MS are basically dependent on one single gas supplier i.e. to the most part Russia and, the EU's realizes that this contributes to the growing vulnerability of its energy security.⁵⁴

3.4 Russian Energy Policy

Today Russia is a major energy producing and exporting country in the world. It is the largest exporter of natural gas and the second exporter of oil in the world.⁵⁵ Therefore, energy is undoubtedly the most important sector in the Russian economy and plays a central role in its foreign trade. Despite the evident advantages of possessing huge amounts of natural resources there are problems with the structure of the Russian economy as it has struggled to raise its economy from the post-Soviet Union slump and at the same time it reminds of other resource-based economies (such as the

⁵¹ Council of the European Union, Presidency Conclusions, Brussels, 9 March 2007, Official Document,

⁵² Council of the European Union, Presidency Conclusions, Brussels, 9 March 2007

⁵³ Spruds, A., "The EU CFSP Towards Russia: The Partnership and Cooperation Agreement as a Test Case", (2006), Riga, p. 78

⁵⁴ European Commission, "Energy for a Changing World: An Energy Policy for Europe, the need for action", Directorate-General for Energy and Transport, Brussels (2007)

⁵⁵ Op.cit, Johnson,(2005), pp.183-185

most African, Latin American countries) which have been unable to turn their natural resources into sustainable economic growth⁵⁶. To illustrate the point of Russia's economic dependency on the energy sector it can be shown that the energy industry accounts for almost one-third of industrial production and makes up more than 50% of export revenues.⁵⁷ Another reason for the low level of economic performance which can be found generally in resource-based economies can be attributed to the fact that in many of these countries the natural resource field has been largely dominated by state-owned or state-controlled enterprises which are evidently not as efficient compared to private owned enterprises.⁵⁸ This observation is true if applied to Russia as in 2004-2005 the state has tightened its grip on the key strategic sectors, especially natural resources (especially gas and electricity).

However, according to the energy analysts the nationalization of the world's oil and gas reserves has been a dominant theme, where nationally-owned oil companies now control over 90% of the world's proven oil reserves.⁵⁹ In addition, the Russian energy sector is facing serious technical problems: the energy infrastructure e.g. the pipelines are in severe condition. Another problem is the pricing strategies that were inappropriate due to being largely subsidized in Soviet times, the strategy that which resulted in the distortion of the structure of demand. Besides, an important factor is also that even in the years when Russia has high energy revenues as currently, they are not being re-invested in the gas or oil industry.⁶⁰

To add to the problems in the energy sector there is a strong domestic political resistance to foreign involvement in oil and gas which impedes the investment and technology transfer that is greatly needed in the energy sector in order to rehabilitate the damaged wells and introduce advanced techniques to extract oil and gas from difficult terrain. All these factors mentioned above indicate that although Russia has a great amount of potential as an energy supplier there are significant obstacles remaining before Russia can realize its full potential.⁶¹

The dynamics of the three main fields in the energy sector in Russia which are oil, gas and electricity will each be presented below in order to give a clear picture of the developments and significance of each field.

3.4.1 Oil

Russia possesses 5% of proven world oil reserves and in the year 2002 produced 11% of the world's crude oil thus becoming the second producer of crude oil in the world.

⁵⁶ Op.cit. Ahrend,R.(2005), pp.1-3

⁵⁷ Christian von Hirschhausen in Gavrilenkov et al. (eds), *Economic Opening Up and Growth in Russia*, (2004), Springer, p. 141

⁵⁸ Op.cit Ahrend.R (2005), p.2

⁵⁹ Helm D. *Russia's Energy Policy: Politics or Economics?* (2006), p.3.

⁶⁰ Op.cit, Johnson,D. (2005), pp. 182-183

⁶¹ Ibid, Johnson, D. p. 183

The revenues from oil exports exceeded \$ 13 bn in 2000 and continued to increase.⁶² However, there are significant problems with the Russian oil industry. The absence of the greatly needed resources and investment has brought ageing equipment, poorly developed fields and limited transport infrastructure. According to the Russian Ministry of Energy 5% of crude oil output is lost through various leakages. Other specialist organizations put the figure at 7%. This means that huge amounts of Russian oil are lost due to the inefficiency of infrastructure in this field.⁶³ Therefore investment of technology in the oil industry is crucial but the position of the government and large oil companies has been to optimize returns while world prices are at a high and not paying the needed attention to the long-term investment needs of the oil field.⁶⁴ Concerning the oil reserves at the end of 2005 production and consumption rates Russian crude oil reserves had a length of an estimated 21.4 years.⁶⁵

3.4.2 Gas

The gas industry is an important strategic element by far exceeding that of oil. It represents the strategic aspect in Russia's strategy for economic development and international integration. Russia has the world's largest gas reserves concentrated mainly in Western Siberia and estimated at comprising around one-third (32%) of the world's proven reserves ahead of Iran (16) and Qatar (8%).⁶⁶ Despite the huge amounts of gas reserves observers stress that there is a question mark about future levels of production from new fields due to the low investment. The most important gas company in Russia is Gazprom which is state owned and has over 300,000 employees making it the largest single business employer in Russia as well as the world's largest gas company. The shares of Gazprom in the global and Russian gas stocks makes up 17% and 60% respectively and provides about 20% and 90% of the global and Russian gas production.⁶⁷

Generally, due to its size and importance Gazprom plays a crucial and dominant role in Russian domestic and foreign economics and politics. The analytics stress the dominant position of the near monopoly of Gazprom along with the restrictions on foreign investment in it have contributed to the slowing down of the development of the gas industry.⁶⁸ In the last decade when there were proposals to demonopolize the Russian gas industry did not result in concrete measures as higher priority was given

⁶² Gert Ziener in Gavrilenkov et al. (eds), *Economic Opening Up and Growth in Russia*, (2004), Springer, p. 155

⁶³ Ibid, Johnson, (2005), p. 183

⁶⁴ Lo.B, *Vladimir Putin and the Evolution of Russian Foreign Policy*, (2003), Blackwell Publishing, p. 61

⁶⁵ Official site of BP, Oil Reserves,

⁶⁶ Christian von Hirschhausen in Gavrilenkov et al. (eds), *Economic Opening Up and Growth in Russia*, (2004), Springer, p. 144

⁶⁷ Official site of Gazprom

⁶⁸ Op.cit, Johnson, (2005), pp. 185-187

to extracting immediate dividends from Gazprom's existing export contracts with mainly European markets. Currently there are no plans in the Russian government to carry out reforms of Gazprom which would let the company become privatized.⁶⁹

3.4.3 Electricity

Russia's electricity supply industry is mainly dominated by the enterprise RAO Unified Energy Systems (UES) which is state owned. Since 1999 the negative trend of Russia's electricity generation and consumption has been reversed. The electricity industry is still owed large amounts in payments as well as lack of fuel supplies at power stations which has led to periodic blackouts especially in the Russian Far East. In 2003 there were new laws initiated and passed that are aimed at the eventual transformation of the electricity industry by e.g. separating UES's generation and distribution arms where the distribution will be divided into smaller units before privatization. However, the transmission grid will be continued to be owned by the state.⁷⁰ In the next part the main features of the Russian Energy Strategy for the years 2003-2020 will be presented as to give an understanding of the Russian position and its long term strategies and goals concerning the energy sector.

3.4.4 Russia's Energy Strategy 2003-2020

The national energy policy that was formulated in Russia's Energy Strategy to 2020 regards improving energy efficiency as a top priority for the entire national economic policy. The Energy Strategy stresses that in the coming years the export of energy resources will remain a key factor for the development of the national economy as well as for the strengthening of the economic and political position of Russia in the world community.

The main priorities of the Energy Strategy are secure supplies of energy for Russian household needs as well as the industrial sector by offering affordable and at the same time stimulating energy saving prices; risk management of crisis situations in the energy security; usage of energy saving technologies and equipment; reduction of the loss in the processes of extraction, processing, transportation and realization of energy production.

Significant attention is paid to the initiatives to decrease polluting risks that energy related processes are causing to the environment. In this respect the Energy Strategy calls for the minimizing of such harmful effects on the environment.⁷¹

⁶⁹ Lo.B, *Russian Foreign Policy in the Post-Soviet Era: Reality, Illusion and Mythmaking*. (2002), Palgrave Mcmillan, p. 147

⁷⁰ Op.cit, Johnson, p. 187

⁷¹ Ministry of Industry and Energy of the Russian Federation website, Russia's Energy Strategy for the period 2003-2020 translated from Russian language

The means to reach the set goals is seen through the creation of a civilized energy market that can be regulated/characterized by non-discriminatory economic interrelations between market private actors and the state government. At the same time the Energy Strategy stresses that the functions of the government are limited to the creation of market infrastructure and legal framework including fiscal, customs, antimonopoly regulation and tariff regulations.

The Energy Strategy also defines the objectives of the Russian foreign energy policy which stresses the importance of Russia's integration into the global energy resource system; cooperation with foreign investors in the field of development of the energy resources and enhancing the efficiency of their utilization and acquiring new energy markets. In addition, the Russian energy foreign policy is aimed at changing the role of Russia from predominantly being a supplier of raw energy resources to an independent member of the world energy market which pursues its own autonomous energy policy on global energy markets.

4 Legal Framework of the EU-Russia Relations in the Energy Field

As it was outlined in the introductory chapter this section aims to present and discuss the legal framework of the EU-Russia energy partnership and to answer sub questions of this paper: What is the role of the ED?

With the important international changes in energy sector in 1999, with the development of European internal energy market and enlargement process the economic interdependence of Russia and the EU has increased, where the energy-related issues were given the highest priority. The EU External Relation Commissioner Chris Patten and Pascal Lamu have suggested using the EU-Russia energy dialogue as 'a blueprint for wider relations.'

4.1 Energy Strategies of the EU and Russia Towards Each Other

As it was discussed before, the EU dependence on Russian gas is growing and in the light of the gas struggles between Russia and Ukraine and later Belorussia over gas prices, the EU responses to such events have indicated the crucial importance of the security of supplies for overall energy security.⁷² As a result of such events the EU is trying to enhance its relations in the energy field with Russia through intensive bilateral energy dialogue and the multilateral cooperation in energy (ECT). It is possible to single out three most important drivers of the EU's energy strategy towards Russia: security, environment and liberalization. As a result of declining energy production and continued increases in demand the long-term security of energy supplies is a major concern for the EU that has become a significant component of its overall Russian policy. Larsson in his analytical research on Russia's reliability as energy supplier points that even though Russia is a reliable supplier (as most of its energy exports have reached its destinations and the risk for supply interruptions for European countries is presently very low), the risk to be affected by interruptions aimed at other non-EU countries (as a result of the political and economic tensions) is high. According to his observation out of the 55 cut-offs by Russia since 1991 only 11 had no political underpinnings that underline the usage of energy lever tools in the Russian for-

⁷² The Economist, How Europe is hooked on Russian Gas. A Bear at the Throat, April 14th -20th 2007, pp.27-29

eign energy policy.⁷³ In this connection, the EU is urgently looking for new possibilities to diversify its energy supplies. As possible solutions the experts mention the following: increased supplies from Algeria, and the possibility to import Iranian gas to Europe via Azerbaijan and/or Armenia via Georgia to Turkey.⁷⁴

The environment and liberalization factors are as well very important issues in their contribution to the security agenda. The experts suggest that greater energy efficiency in Russia will release more supplies for export to Europe and European energy savings will reduce the need for Russian imports. As for liberalization of the Russian markets, Johnson argues that it will “utilize market signals to stimulate domestic energy savings and release recourses to modernize the industry and make it more efficient which in turn should enhance Europe’s energy security.”⁷⁵

As it is stressed by the experts it is important to agree on a set of realistic and mutually beneficial commitments with Russia that will facilitate EU-Russia energy cooperation and to identify concrete steps to rapidly improve the investment climate. Since the fundamental task of Russia’s energy strategy is to ensure national security, it continuously tries to utilize its energy policy to prevent geopolitical and macroeconomic threats and risks of being blackmailed (four known cases are blackmailing by transit countries Ukraine, Moldova, Belorussia; producer countries such as Turkmenistan and consumer country Turkey).⁷⁶ Larsson stresses that at the same time Russia strives to be a reliable supplier in the eyes of the EU and it shows willingness to play by the international rules but if national security requires, it puts limit on the extent of which it can give up its independence.⁷⁷

In connection to the relations with the EU Russia’s most important energy policy driver is the security of the demand or security of the consumer markets. The Russian government realizes the importance of having an image of a reliable supplier (and being it). This motivates Russia to construct new pipeline routes which bypass the transit countries and deliver energy products directly to the EU countries.⁷⁸ The major planned projects are Nord Stream (the northern trans-European gas pipeline) and Burgas-Alexandroupolis pipeline (transporting Russian and Caspian oil to Bulgaria and further to Greece).

In spite of the growing attempts to diversify Russian economy in order to find alternative ways for the economy to grow and ideas of diversification of the consumer markets (with recent increased interest in China as possible energy market) in the foreseeable future Europe and to a large extent the EU will remain the only consumer of the Russian energy since the above mentioned diversification will require time and substantial financial investments. Another important issue of the energy policy is the attraction of investment to increase its oil and gas exports, to rehabilitate

⁷³ Op.cit, Larsson, R. pp. 3-4

⁷⁴ Ibid. Larsson, pp. 179-180

⁷⁵ Op.cit, Johnson, pp.178-179

⁷⁶ Op.cit, Larsson. R. pp. 256-258

⁷⁷ Ibid, Larsson, R. p.68

⁷⁸ Sydsvenskan, Ekonomi, “Oljekinflikten har skadat Ryssland”, (2007.01.15)

and upgrade its energy infrastructure and to use knowledge and technology transfers as a means of enhancing economic growth.

4.2 What is the Role of the ED?

As it was underlined previously, in energy field more than in any other area the EU and Russia have mutual interests. For the EU-25, Russia is the main supplier of the hydrocarbons: 25% of its gas (50% of its imports) and 25% of its oil (over 30% of all its imports) comes from Russia.⁷⁹ Some 63% (130 billion cubic meters (bcm)) of Russia's natural gas exports of 205 bcm were delivered to European countries in the year 2000, with contractual requirements to increase deliveries to around 200 bcm by the year 2008.⁸⁰ Dependence on Russian gas is considerable within the EU: Finland's shares are 99%, France- 24%, Germany- 39%, Greece -76%, Italy- 34%.⁸¹ Energy dependence is especially high in the new EU's MS. Apart from Slovenia, the shares are 70-100% for natural gas and oil: Poland imports 87%, Slovakia 86%, the Czech republic 80%, Hungary 76%, Lithuania 71%, Estonia 100%, Latvia, 57%.⁸²

As for Russia, the importance of the EU as a main energy consumer market cannot be underestimated. Since the EU- 25 is the final destination for more than half of Russian oil and gas and taking into consideration the revenues that the Russian government gets from the energy trade with the EU (oil and gas exports for 74.0 USD billion, accounting for 20-25 % share of GDP growth)⁸³ the EU market is of vital importance for Russia. Besides, Russian energy sector badly needs investment and expertise. The scale of investment required in Russia's energy sector is considerable. According to Russia's Energy Strategy 2001 - 2020, need for new capital in the sector has been estimated at between €560 and €650 billion over the period to 2020.⁸⁴

To summarize these statistical data it is possible to say that the EU and Russia are energy interdependent in different ways: the EU needs to import increasing quantities of energy, and Russia needs markets for its natural resources and the European capital to modernize and expand its energy sector.⁸⁵

In acknowledgement of the importance of interdependence, the two sides launched a bilateral Energy Dialogue at the EU-Russia Summit in Paris in 2000. The ED is aimed at providing a wide and stable partnership between the EU and Russia and to enhance the reliability of energy supplies both in the EU and Russia. The Joint Declaration of the Summit recognized the mutual dependence and agrees:

⁷⁹ EuroActive website, Energy Dialogue

⁸⁰ European Commission's Delegation to Russia

⁸¹ *Sydsvenskan, Världen, "Ryska Gasen Väg till Västeuropa"*. Issue of 2007.02.05

⁸² Hamilton. C.B. Russia's European Economic Integration. Escapism and Realities. in *Economic Systems* 29(2005), pp. 299-300

⁸³ Op. cit, Bonanza pp. 17-26

⁸⁴ EU-Russia Energy Dialogue website, Why such a partnership?

⁸⁵ Op. cit., Johnson, p.189

“to institute, on a regular basis, an Energy Dialogue which will enable progress to be made in the definition of an EU-Russia energy partnership and arrangements for it. This will provide an opportunity to rise all the questions of common interest relating to the sector, including of cooperation on energy saving, rationalization of production and transport infrastructures, European investment possibilities, and relations between producers and consumer countries. The planned ratification of the Energy Charter Treaty by Russia and the improvement of the investment climate will be important aspects in this context.”⁸⁶

The main objective of the energy partnership is “to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues 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.”⁸⁷

Against this background, the EU-Russia ED has identified a number of common and complementary interests for which concrete actions for the short and medium-term will be implemented. These areas include:⁸⁸ ensuring reliable energy supplies in the short and long-term future, increasing energy efficiency, securing long term investment, opening up energy markets, diversifying the range of imports and exports of energy products, enhancing the technological base of the energy sector of the economy, improvement of the legal basis for energy production and transport in Russia, ensuring the physical security of transport networks.

Apart from the above mentioned issues the ED also has an environmental aspect as it aims to reduce the impact that Russia’s energy infrastructure causes on the environment.

The ED is managed through the institutions set up by the Partnership and Cooperation Agreement (PCA) where the European Commissioner for Energy Andris Piebalgs leads the Dialogue on the EU side and Industry and Energy Minister Viktor Khristenko is his Russian counterpart. Different support structures such as the Technology Center and subcommittees have been recently created to maintain the work of the ED.⁸⁹

4.2.1 Results of the ED: Joint Progress Reports 2000-2006

As it is stated in the progress report of the EU Commission since its launch in 2000 the overall progress in the ED has been substantial with positive results in different directions of the energy cooperation. The ED has provided a framework for the reso-

⁸⁶ Commission’s website EU-Russia Summit of October 2001

⁸⁷ Op. cit, EU-Russia Energy Dialogue website , Objectives of partnership,

⁸⁸ Op.cit., Europa website, European Commission’s Delegation to Russia, Energy

⁸⁹ Op.cit, EU-Russia Energy Dialogue website

lution of a number of potential energy problems between the two sides and has made a significant contribution to strengthening the security of energy supply to the EU.⁹⁰

There is a number of the specific issues being addressed during the whole period the ED development:⁹¹ Alleged limitation of 30% on imports of hydrocarbons, clean coal projects, electricity interconnections, energy savings and energy efficiency, long term contracts for natural gas, networks - rehabilitation of the existing Russian hydrocarbon export network, non-commercial risk guarantee mechanism, nuclear safeguards, Production Sharing Agreements (PSAs) and trade in nuclear materials. The thematic groups of experts on investment, infrastructure, energy efficiency and trade flows that were set up for the evaluation of the ED progress, have made in-depth examination of major issues of common interest and identified the successful areas of the ED implementation.

4.2.2 The ED as an Instrument of the Single Market

According to the evaluation of these expert groups the ED opened the way to European investment in the Russian energy market and provided a forum for tackling difficulties faced by Russian companies when trying to enter the single market. In this connection, companies such as BP, Shell, and ENI have made significant investments as well as Russian investments in the EU have forthcoming essentially through stakes which Gasprom has bought.⁹² Another issue that has been improved in the course of the ED is the territoriality clauses in supply contracts (though not to all clauses are deleted, e.g. with Austria and Germany) and restrictions on the import of gas and petrol. This included the preservation of long-term contracts for the supply of gas, an important factor in the security of supply, and the deletion of measures that went against EU competition rules.⁹³

4.2.3 A Less Polluting Transport System

The essential improvements were reached in the field of the physical security of the transport of energy supplies which were aimed to address pollution risks. As a result, Russia has increased its controls on oil tankers and backed efforts by the EU to get international backing for similar measures through the International Maritime Organization. The experts of the ED have studied the feasibility of regional surveillance system by satellite to prevent accidents and detect leaks in oil and gas infrastructure. In this respect the ED has helped to revive the negotiations regarding linking of Gali-

⁹⁰ Europa, website, Press Release: Energy Dialogue Results.

⁹¹ Op. cit. EU-Russia Energy Dialogue website,

⁹² European Commission's website, Communication from the Commission to the Council and the Parliament

⁹³ Ibid, Communication from the Commission, p.7

leo and Glonass⁹⁴ systems (started in 1999) which can strengthen the security of transport infrastructure and are expected to be adopted in 2007.⁹⁵

4.2.4 Trade in Energy Products

Trade in hydrocarbons has been one of the primary subjects of clarification in the ED. The alleged restrictions on the energy imports according to which the Member States have to decrease their energy imports from one energy supplier to 30% has proved to be an issue that could have restricted further cooperation in the field of energy. As the President of Russia Vladimir Putin has stated: "...if Europe treats us as an equal partner, then in regard to Russia the rules will not be operative, by which an EU country cannot receive more than 30% of energy resources from a country which is not a member of this community. Today such rules are in force, and they really can lead to a restriction of our cooperation. And in Europe and in Germany they will inevitably lead to an increase in prices, including - for domestic users."⁹⁶ However, following the discussions between the EU and its Russian counterparts the EU negotiators reassured that there were no longer restrictions on imports of gas and oil into the EU.

Trade relations in the area of nuclear material between Russia and the new Member States represent more than 200 USD million per year to Russia, and correspond to 80% of the market in the new MS (or 12% of the market in the EU 25). In this connection through intensive negotiations within the ED's expert committees the parties have defined rules and principles which would apply in this area and by this made possible to confirm the validity of the contracts (long term contracts between the Russian export companies and the new Member States went well in 2004) in accordance with Euratom Treaty.⁹⁷

4.2.5 Energy Efficiency Programmes

Increasing energy efficiency is one of the priorities of the Russian's energy Strategy. In this area industrial cooperation between Russia and the EU through the exchange of expertise and technology has given positive results. In this respect joint pilot projects on energy efficiency has been started in Russian regions: Archangelsk, Astrakhan and Kaliningrad. The project in Kaliningrad is of a special importance in regard of energy efficiency due to the city's position as a Russian enclave within the territory of the EU. In Kaliningrad, estimations of energy savings as a result of an energy

⁹⁴ Galileo (the EU) and Glonass (Russia) are the systems of satellite navigation (especially designed for civilian and commercial applications) used in the energy sector which includes exploration, construction, transport and site monitoring. Op.cit., EuroActive website

⁹⁵ Op.cit, EuroActive website; see also Communication from the Commission(2004), p. 9

⁹⁶ Speech of President Putin, 2002.04.10

⁹⁷ Op. cit, European Commission's communication(2004), pp.9-10

efficiency programme are in the order of 35%-40%. This potential is significant considering that 90% of the Enclave's primary energy comes from Russia.⁹⁸

Another issue that can be attributed to the success of the ED is the ratification of the Kyoto protocol by Russian State Duma in October 2004. The EU funded TACIS programme provided technical assistance in the implementation of the energy related issues of the Kyoto protocol.

4.2.6 Transeuropean Energy Networks

The reliability of energy transport is one of the preconditions for a stable and continuous energy supply in the EU. Hydrocarbons coming from Russia pass either by land route (oil and gas pipeline) or by sea route that is why the transport networks was an essential objective of the ED. The Trans-European energy networks framework has identified the guidelines for a number of electricity and gas infrastructure projects that were adopted in June 2003. These guidelines have designated as 'a priority axis' the gas pipeline project connecting the United Kingdom and continental northern Europe with Russia.⁹⁹

Having discussed the role of the ED and its achievements in the enhancing the cooperation in energy field between the EU and Russia is possible to conclude that the dialogue has demonstrated its usefulness through concrete results where the policies and strategies of both parties can lead to even closer cooperation. Nevertheless, there is a number of conflictual issues and questions within the ED that reflect the incompatibility in the EU's and Russia's positions on how to proceed with the energy cooperation and which need to be resolved to enable a better integration. In this respect the conflictual issues of the ED will be discussed in the next section of this paper.

4.3 Conflictual Issues of the ED

This section will discuss the existing conflictual issues within the ED between the EU and Russia i.e. answering the sub-question of this paper which is formulated as follows: What are the conflictual issues of the ED?

4.3.1 Territoriality Clauses

The EU has been firmly dedicated to liberalizing its energy markets both for industrial users as well as for households. However, the conflictual issue lies in the fact to

⁹⁸ Ibid, European Commission's Communication (2004), p.8

⁹⁹ Ibid, European Commission's Communication, p.10

the fact that Russia gas supplies the EU countries are delivered under long-term contracts some of which contain the controversial so-called territorial clauses. According to these clauses in the case when a MS receives more gas than it needs it is not allowed to sell it on to its neighbors. As the European side insists, such clauses are against the EU single-market rules and prevent the EU from developing a functioning EU gas market as the clauses allow Gazprom to sell gas to various MS at different prices.¹⁰⁰

Although long term gas contracts have been having an important role in the development of the European gas market in e.g. providing a risk sharing arrangement between the producer and buyer and play a crucial role in the energy security of the EU, nevertheless the EU stresses that these contracts must proceed with the disappearance of restrictions within the EU. The consequence of EU's firm stand on this issue has been the reaching of a settlement with the Italian oil and gas company ENI and Gazprom concerning a number of restrictive clauses which exist in their contracts. There were other investigations of contracts initiated which were breach of EU single-market rules in Austria and Germany and the Commission is confident that it will reach an agreement that will lead to the deletion of the remaining clauses.¹⁰¹

4.3.2 Electricity Grid

At the EU-Russia Summit of 2001 both sides recognized the interconnection of the Russian and continental EU electricity grids as one of the projects of 'common interest'. They consider that full integration of the electricity markets will lead to significant benefits in the development of a free competition, improvement of security of electricity supply and the creation of new possibilities for business cooperation in the electricity sectors of both EU and Russia.¹⁰²

However, there have been conflictual positions regarding the process of realization of the above mentioned initiatives. Russia is strongly pursuing an effort to link its own electricity grid to that of the EU. As Katinka Barysch points out this would enable Unified Energy Systems (UES) the electricity monopoly of Russia, not only to sell surplus electricity to the EU consumers but also to make up for temporary shortages in its own market by importing power from the EU.

The EU's position in this matter is that Russia must adopt the standards of the EU for competition, nuclear safety and environmental protection as well as the end of subsidies that Gazprom offers to UES in the form of cheap gas. According to the EU Russia does not fulfil these requirements. It has been a difficult task of finding an agreement on these issues and therefore the two parties have established an expert

¹⁰⁰ Barysch K, EU-Russia Economic Relations, in Antonenko. O&Pinnick.K, *Russia and the EU*, (2005), p.125

¹⁰¹ Europa website, Commission, EU-Russia Energy Dialogue,

¹⁰² Ibid, Europa website, Commission, EU-Russia Energy Dialogue,

panel with the task of determining the extent to which Russian and the EU rules and policies diverge in these areas.¹⁰³

4.3.3 Dual Gas Pricing vs. Unified

Russia has a dual gas pricing policy in which low revenues from domestic gas prices are subsidized by much higher European- and to a lesser extent Commonwealth of Independent States (CIS)-gas prices.¹⁰⁴

According to this policy Russian federal authorities have substantial legal power over the natural gas sector at its disposal to improve the social and economic environment. The main reason for dual pricing has been to provide a natural gas subsidy to the Russian economy including for household needs and large industry enterprises. Within this system, three main clauses can be identified: domestic sales are priced very low, sales to countries of CIS are priced higher; and sales to Europe are priced the highest. In 2003, 65% of Gazprom's revenues were from European sales, and European prices were six times those of domestic consumers.¹⁰⁵ These are the circumstances in which the conflictual issue between the EU and Russia occur.

Such policy of dual gas pricing has led the European side to take a tough position and to argue that low prices on the home market act as a trade barrier by providing unfair advantages to Russian energy intensive companies over their European counterparts. Such energy prices are therefore illegitimate. In order to eliminate such unfair advantages the gas prices must be unified. As the European experts underline the pricing at European level does not mean that Russian domestic users should pay the same as Europeans for their gas. Instead unified pricing refers to equalizing Russian domestic prices to European export netback prices- that is export prices adjusted for transport costs, taxes, and import duties.

As for Russian counterparts, they argue that by declaring the low home prices illegitimate, the EU tries "to deprive the Russia of its rights to avail itself of its natural competitive advantage."¹⁰⁶ As Ruslan Grinberg stresses that while demanding to decrease the price gap the EU partners do not consider the peculiarities of the structure of Russian economy known for its extremely high energy consumption, severe natural conditions, the difficulty of access to oil and gas fields and extraordinary high share of transportation in the total production costs. He further points out that the unification of the prices in an abrupt manner would inevitably result in an economic collapse and deep social crises.¹⁰⁷ The social problems will rise as the energy intensive companies are confronted with higher costs. Thus, this situation can lead to rising un-

¹⁰³ Op.cit, Barysch, p.125

¹⁰⁴ Spanier, A. Russian gas price reform and the EU-Russia gas relationship: Incentives, consequences and European security of supply, 2006, in Energy Policy, Elsevier Ltd, p. 2891

¹⁰⁵ Ibid, Spanier, p. 2891

¹⁰⁶ Grinberg, Russia on the Threshold of the WTO: Some Problems and Options, in Gavrilencov et al, p. 256

¹⁰⁷ Ibid,Gringerg, p. 256

employment and the possibility of bankruptcy of a number of energy intensive companies.¹⁰⁸ For Russian government these problems pose serious risks that significantly diminish the incentives towards unified prices.

Nevertheless, according to estimations of the experts, the unified gas prices can be beneficial for Russian government through revenues gained from dividend and tax payments. In this connection, as Spanier observes the Russian government is showing the signs of will to change the policies in connection to domestic prices. The Energy Strategy of Russia for up to 2020 has doubled the prices in 2006 and plans to triple them by 2010, but still the government insists that the increase should not be that large as to increase the price up to the netback European export level.¹⁰⁹

4.3.4 Production Sharing Agreements

As Barysch observes the dialogue on oil is not politically charged to the same degree as the gas industry due to its being already to a high degree privatized and liberalized. However, the important issue in this matter is the process of attracting EU investors to the Russian oil sector. In this respect the PSAs play a fundamental role in the attraction of foreign capital and investment.¹¹⁰ To specify further, PSAs are taking place between the state which is the owner of mineral resources and a foreign oil company (FOC) as a contractor that provides technical and financial services for exploration and development operations. The state is usually represented by the government or one of its agencies such as the national oil company (NOC). PSAs are mainly used to establish the share that the private company will obtain of the natural resources (oil extraction) extracted from the country where the investment takes place. Besides, the entity that invests in a development project is the first to capture the investment from revenues generated by the forthcoming output.¹¹¹

However, as Kirsten Bindemann underlines the state remains the owner of the energy sources only to the contractor's entitlement to its share of production. The government or its NOC usually has the option to participate in different aspects of the exploration and development process.¹¹²

The PSAs became part of the legislation in Russia in 1998 and must in some specific cases be approved by the government. However, the Russian authorities have decided in the 2003 to keep only a limited number of PSAs because they consider that the undertaken current reforms contribute to an attractive investment climate under more standard forms of investment. The Russian government bases such approach on the BP's decision to commit more than \$6bn to its Russian ventures and other gi-

¹⁰⁸ Ibid, Spanier, p. 2894

¹⁰⁹ Ibid, Spanier, p.2894

¹¹⁰ Op. cit, Barysch K, p.125

¹¹¹ Bindemann, K, "Production-Sharing Agreements: An Economic Analysis," (1999), Oxford Institute for Energy Studies, p. 1

¹¹² Ibid, Bindemann, p. 1

ant offshore operations financed mainly by Royal Dutch/Shell and ExxonMobil.¹¹³ In addition, this approach has led to a more difficult procedure to conclude new PSAs. Due to these actions, PSAs would in the future only be suitable for projects which failed to attract investors.¹¹⁴

The EU stresses the need for Russia to establish a workable framework for PSAs as they are the principal way for foreign firms to invest in Russia and for the Russian government to maintain a degree of control over valuable resources. The EU points out that besides the mentioned investment projects there has been remarkably little foreign investment in the Russian energy sector. The reason for such low foreign investment is considered to be the absence of a functioning PSAs, uncertain property rights and prevalent public rejection in Russia to selling its national resources to foreign investors.¹¹⁵ The EU position on this matter is that it considers PSAs to continue being a necessary legal framework for projects in environmentally challenging areas that are capital intensive.¹¹⁶

The above mentioned conflictual issues between the EU and Russia pose significant difficulties for the further development of the EU-Russia energy partnership. As it is possible to notice these conflictual issues are different in nature, some of them identify the divergence of EU and Russian positions in terms of technical standards, different positions on how to regulate foreign investment into Russia, different visions on energy pricing as well as the importance of long term contracts within the energy sector.

As it was underlined in the beginning of the paper the next section will highlight the conflictual issues of the ECT which is an important aspect of the EU-Russia energy relations and the examination of which is crucial for the understanding of the conflictual issues in general.

4.4 The Energy Charter Treaty

In 1990 the European Community (EC) initiated the cooperation in energy field with the Eastern European countries. Such political initiative has found its realization in the creation of the Energy Charter Treaty. The idea of the creation of such a treaty was dictated by the mutual realization that in the conditions of growing interdependence between the consuming, producing and transit countries, international cooperation can be more effectively regulated by multilateral rules than by bilateral agreements alone. In this connection the role of the ECT was seen as to build a legal foundation for energy security based on principles of open competitive market and sustainable development.

¹¹³ Op.cit, Barysch, pp.125-126

¹¹⁴ Europa website, EU-Russia Energy Dialogue

¹¹⁵ Op.cit, Barysch K, pp. 125-126

¹¹⁶ Europa website, EU-Russia Energy Dialogue

The objectives of the ECT are to provide countries with natural resources means to attract investment, protect their interests and to guarantee reliable transportation for their energy exports to their consumers. For the energy importing countries the ECT provides protection of their investments and mechanisms to promote the security of supply.

A core principle of the Treaty (ECT Article 18) is national sovereignty over energy resources where each member country is free to decide whether and how its national energy resources are developed. Besides the government also decides the extent to which its energy sector is open to foreign investors.¹¹⁷

The European Energy Charter was adopted in 1991 and was followed by the legally binding ECT signed in 1994 and which entered into force in 1998. Since its creation fifty one states have signed the Treaty plus the EU which signed it collectively as well in the name of the European Communities and therefore the total number of the signatories is fifty two. However, out of the fifty two, five states have still not ratified the Treaty. Russia is one of the states that has not ratified the Treaty but has agreed to apply the provisions to the extent that it is consistent with Russia's own constitution, laws and regulations.¹¹⁸ Such provisional application is provided by Article 45(1) which states that "Each signatory agrees to apply this Treaty provisionally pending its entry into force ... to the extent that such provisional application is not inconsistent with its constitution, laws or regulation."¹¹⁹

4.5 Conflictual issues of the ECT

The underlying reasons for Russia's non ratification of the ECT lie in the provisions of the so called Transit Protocol (TP) of the ECT which reflect the incompatibility of the EU's and Russia's positions on the freedom of transit.

The TP of the ECT obliges the participating states to take the necessary measures to facilitate transit of energy, consistent with the principle of freedom of transit, and to secure established energy flows. The transit countries are also under an obligation not to interrupt or reduce existing transit flows, even if they have disputes with another country concerning this transit.¹²⁰ Such provisions of the Protocol are aimed at diminishing risks and costs related to transit; increasing competitiveness of transit supplies and improving energy security which includes security of supplies, security of demand and security of infrastructure.¹²¹

Since for Russia the issue of transit of energy resources is more important than for any other country where the proportion of transit of gas across third countries

¹¹⁷ Energy Charter Treaty website

¹¹⁸ Ibid, Energy Charter Treaty website

¹¹⁹ Text of the 1994 Energy Charter Treaty

¹²⁰ Trade and Transit, Official site of the Energy Charter Treaty,

¹²¹ Konoplyanik, A, "Emerging Energy Security Risks and Risk Mitigation: The Role of International Legal Framework", (2006)

amounts to 95% if compared with e.g. Netherlands 24%, Norway 32%, Algeria 55% the fair TP provisions are of high importance.¹²²

In the present formulation of the TP provisions Russia finds several aspects that do not take into account Russia's strategic interests as the major transit country within the ECT. The main arguments against ratifying the ECT are given by Russia as following: First, the ratification would undercut Gazprom's position on European markets by forcing Russia to open up its network for cheaper gas from Central Asia, second, ratification would require that Central Asia states be given accesses to the Russia pipeline system at subsidized internal tariff levels, third, ratification would place in jeopardy the system of long-term contracts for supplies of Russian gas to Europe.¹²³

In addition, Russia stresses that it regards as unfair the Article 20 of the TP on Regional Economic Integration Organization (initiated by the EU Commission) which states that on the territory of the EU the provisions of the TP are not applicable since the transit of the energy recourses on the territory of the EU is regulated by the EU internal market mechanism. This can mean that e.g. the tariffs for transit of Asian gas will be lower than that of Russian gas to Europe.

Vladimir Milov emphasizes such a provision (Article 20) points at the double standard approach that is present in the construction of the energy Transit in relation to Russian interests.¹²⁴ The disagreements and the difficulty to find consolidated position has resulted in Russia's passiveness in negotiations and at times Russia even failed to attend them without explaining the reasons. As Konoplyanik stresses, such refusal to participate in substantive discussions in the framework of negotiations and consultations "...is the worst possible strategy of all...which subscribes to a different tactic 'counter-acting through inaction'".¹²⁵

As for the European side, it advocates the development of energy framework of the TP in line with the so called British model which is based on a competitive and liberalized market with open accesses to pipelines and networks (which at the same time rejects long-term contracts in favor of spot deals). In this connection the EU insists on the ratification of the ECT by Russia in order to get free access to Gazprom's pipelines and networks, which will lead to the break up of Gazprom's monopoly and the state's firm grip on the pipelines, and which will further enhance European security of energy supplies. The EU pressures Russia to let go its 'strategic obsession' in energy relations and to ratify the ECT if it wants to convince the Europe of its reliability as energy supplier.¹²⁶ Such European energy policy becomes especially impor-

¹²² Konoplyanik.A, "Energy Charter: Counter-acting through Inaction", (2003), Oil, Gas&Energy Law Intelligence Volume I, Issue 2,

¹²³ Gazprom's arguments presented in Konoplyanik.A, "Energy Charter: Counter-acting through Inaction", (2003), Oil, Gas&Energy Law Intelligence Volume I, issue 2,

¹²⁴ Milov.V, Proigrannaja Khartija (Lost Charter) translated from Russian, (2003), Institute of Energy Policy

¹²⁵ Op.cit, Konoplyanik, (2003)

¹²⁶ Op. cit, Larsson, p.180

tant and understandable in light of the recent Ukrainian and Belorussian energy disputes with Russia and subsequent disruptions in the delivery of energy resources.¹²⁷

In spite of its non-ratification of the ECT Russia continuously reconfirms its commitment to the Energy Charter process as Russia “views the Energy Charter as an important instrument for international cooperation.”¹²⁸ Russia stresses that it does not seek unilateral advantages but common benefits such as insuring the stability and security of energy supplies.

Having examined the conflictual issues identified in EU-Russia energy relations it can be concluded that these issues present difficulties for further EU-Russia cooperation and partnership in the energy field.

¹²⁷ Helm.D, “Russia’s Energy Policy: Politics or Economics?” (2006), Open Democracy and Free Thinking for the World

¹²⁸ Denisov.A, cited in Kemper R, “Russia Re-States its Commitment to the Energy Charter”

5 Analyzing Conflictual Issues

5.1 Interdependence

The final chapter of this paper presents the explanatory part and aims at answering the main question: why do conflictual issues in EU-Russia energy relations occur?

As it was suggested the analysis will be done with the help of the theory of interdependence and the interpretative model of conflict emergence. The theory of interdependence provides the explanation of how asymmetric interdependence can become a source of power in a bargaining process and its role in the conflictual issues.

In the EU-Russia energy relations interdependence is clearly observable. This interdependence determines the incentives of both sides for cooperation and partnership which aim at enhancing the energy security that is a vital aspect of any state's well functioning. Having examined the empirical context of the EU-Russia energy interdependence it is possible to observe that this interdependence is asymmetric since it reflects the uneven distribution of the benefits and costs in EU-Russia energy context. In the course of the last years the EU perceives itself as more dependent on the supplies of Russian gas than Russia depends on the EU energy market. This understanding derives: first, from the fact that demand for energy consumption is increasing, especially gas, where Russia is the main supplier to the EU; second, the relatively expensive production of alternative energy recourses; third, the possibility for diversification of suppliers is not an easy task for the EU since most of the alternative suppliers are located in politically hostile and unstable environments; fourth, the internal difficulties to liberalize the EU market where there is growing divergence in positions of the MS on how to enhance the security of energy supplies (they consider the security of supplies as a crucial aspect of their national security agenda and therefore they are reluctant to let such issues be considered at the EU level). Taking into consideration the above mentioned factors it can be concluded that this is a kind of vulnerability interdependence which inflicts substantial costs for the EU and underlines the difficulty to adjust the EU's policies in the event of unfavorable changes within the Russian energy policy.

Concerning Russia's dependency on the EU energy market it can be argued that it is dependant but to a lesser extent. The following factors can support this argument: first, Russia has bilateral long-term contracts with the EU MS which secures Russia's

energy exports. Second, Russia is a major transit country which owns the important pipelines networks without which the Asian gas cannot be transported to the EU, Besides, Russia is continuously strengthening its positions by signing to new pipeline projects with Kazakhstan and Turkmenistan.¹²⁹ Third, possession of one third of the world's proven gas reserves gives Russia a stable position of being a major gas supplier, what in its turn, in the conditions of growing gas consumption in the world, suggests that Russia will continue to be one of the few viable suppliers of gas.

On the other hand Russia is dependent on the EU energy market as a substantial part of Russia's energy exports go to the EU at high prices which constitutes a large part of state revenues. This can be characterized as sensitivity interdependence where Russia has the ability to adjust its policies as a response to the changes in the EU's energy policy. This conclusion derives from the fact that even if the EU limits its imports from Russia, the non-EU states (Former Soviet Republics) which are dependent on Russian energy to a high degree will continue to be a viable market for Russian energy products. One more opportunity to compensate for the loss in case of EU limited imports of Russian energy is the gradual increase in the domestic price levels which already takes place.

According to the theory of interdependence such asymmetries can provide a source of power to a less dependent actor in a bargaining process and put it in a more favorable position in the negotiations where it can manipulate the bargaining outcomes. In the context of EU-Russia interdependence, there are sufficient grounds to consider Russia a less dependent side which provides it with a powerful source in the bargaining process over disputable issues in energy relations which have been examined previously.

In several issues it gives Russia the ability to withdrawal from the negotiations without any particular loss as a result of its non participation (as it is the case of conflictual issues of the ECT). Concerning the PSAs Russia itself decides how the process of investment is carried out i.e. it uses its favorable position of being the owner of the natural resources who makes the decisions without particular consideration of the EU's interests on these issues. In the territoriality clauses and dual gas pricing issues this asymmetric interdependence gives Russia further incentive to continue to pursue its own policies.

This situation contributes to further intensification and deepening of the conflictual discourse and makes it difficult to manage such conflictual issues. In addition, some of the achievements in the EU-Russia energy relations as well can be attributed to the manipulation of the asymmetric interdependence by Russia i.e. Russia secured long-term contracts as the basis for energy cooperation and the clarification of the question on the alleged restriction on imports in favor of Russia.

¹²⁹ Recent agreement reached between Russia, Turkmenistan and Kazakhstan on 12th of May 2007. Official site of the Ministry of Industry and Energy of the Russian Federation, Translated from Russian

5.2 Interpretative Model of Conflict Emergence

The innovative theory of the understanding of conflict emergence provides a deeper explanation of the deployed logics behind the choice of foreign policies by different actors and argues that the clash of principles of state sovereignty and international integration is the main source of conflict.

The analysis of the context of the EU-Russia energy relations shows that outcomes of such interaction can be characterized as both cooperative and conflictual. In order to understand the reasons for the emergence of conflict it seems to be appropriate to analyze why in the first hand cooperation occurs.

If analyzed with the help of the interpretative model of conflict emergence the creation of the multi-lateral international regime of the ECT and the bilateral EU-Russia ED is the results of the match of the logics behind the choice of the foreign policies of the respective actors. Both the EU and Russia realize the importance of integration in the field of energy as a necessary mechanism for the enhancement of energy security in the face of the emerging energy related global threats. In the case of the ED such realization is reflected in mutual deployment of the integrationalist logic by the EU and Russia which resulted in the creation of the 'common space' in the form of the ED and its institutional framework. The fact that such cooperation became possible and subsequently led to positive results and achievements such as: the improvement of transport systems (concerning the reduction of pollution); the clarification of questions concerning import limits and trade of nuclear materials; the creation of energy efficiency programmes; the ratification of the Kyoto Protocol by Russia and the initiation of several projects for such as Transeuropean energy networks, reflects that both parties have defined rules and principles that are mutually beneficial. In the interpretation of Prozorov's theory such integrative moves can be characterized as symmetric based on non hierarchical interaction (as none of the parties insisted on its 'rules of the game').

In the case of the ECT the initiation by the European Commission of the multi-lateral cooperation within the energy field was met by the equivalent response by Russia which resulted in the signing of the ECT by Russia. However, Russia decided to implement the ECT only provisionally in order to evaluate all possible outcomes of the ratification of such a Treaty and to what extent it is in line with its national regulation. The further development in the ECT legal framework such as the creation of the TP has generated some conflictual issues in the EU-Russia energy relations. The examination of the conflictual issues connected to the TP through the interpretative model suggests that the mismatch between the deployed logics behind the opted for policies by Russia and the EU as a reason for the emergence of conflictual issues discussed in the empirical research. In this situation the integrationist logic of the EU is

met with dissent and rejection by Russia and as a result leads to Russia's self-exclusion from the ratification of the ECT. Firstly, the rejection by the Russian side can be explained by its perception that integration in the questions of freedom of transit is asymmetric, with features of hierarchical inclusion. The initiation by the EU of Article 20 and further inclusion of it into the TP puts the EU in a more favorable position than Russia in questions of transit tariffs. This means that the EU insists on its 'rules of the game' and defines who is integrating (EU) and who is integrated (Russia).

Another reason for Russia's self-exclusion is the fact that the energy resources play a crucial role for the enhancement of national security including the economic and social development of Russia. The empirical research presented earlier reflects this reality where Russia is considered to be a resource-based economy with the GDP to a large extent made up of revenues from the energy sector, and the fact that the diversification of the economy is in its initial phase. This leads to the argumentation by the Russian side that the provisions of the TP will jeopardize the long-term contracts, undermine Russia's position as a major energy power and threaten its geopolitical interests. The response of the EU side to such argumentation as of not having any grounds for points to the difficulty of the two parties to treat each other as legitimately different i.e. having their own interests and motivations that need not necessarily coincide. In the terminology of the interpretative model, in this situation Russia perceives the integrative move of the EU as an 'assault on sovereignty' and attempts to avoid such 'unwelcome intrusion' into its legitimately bound space.

Having analyzed in detail the reasons for the emergence of conflictual issues within the ECT through the opposition of the deployed logics by EU and Russia I would like to analyze in general other identified conflictual issues in energy relations with the help of the interpretative model.

Concerning the territorial clause issue the Russian side deploys sovereign logic in its opted for policy since it prefers bilateral relations with the EU MS and as a result insists on long-term contracts as well as the prohibition for them to resell the surpluses of the gas imported. This logic is met with rejection by the EU since it is in breach of the EU single market rules. As a result of the mismatch of these logics Russia prefers to negotiate on a bilateral basis with the MS and insists on its territoriality clauses since it argues that the rules of the single market do not apply to Russia and thus the EU's claims cannot be a substantial ground for considering in this conflictual issue.

In the case of the electricity grid issue Russia deploys the integrationist logic behind its policies with intentions to integrate the electricity grid of the EU and Russia. Such logic is met by EU with descent which leads to EU self-exclusion from planning common projects in this area. The reason for such a position of the EU is that it

agrees on integration only on its rules and conditions .i.e. Russia must adopt the standards of the EU for competition, safety and environmental protection.

In the conflictual issue over dual gas pricing the EU side deploys integrationist logic behind its choice of policies since it wants Russia to increase its domestic gas prices and unify them with European netback prices. Such logic is met with dissent and rejection from the Russian side. This mismatch of logics leads to Russia's self-exclusion from pursuing this unifying price policy. The rejection is due to the perception of integration in this field as being asymmetric i.e. the EU's insistence on unified prices without considering the negative consequences of such policies for Russian societal situation.

The last of the conflictual issues identified in this paper concerns the PSA's agreements. In this situation the integrationist logic deployed by the EU is met by Russian sovereign logic in this issue since Russia by all means tries to reject the participation of foreign investors in its energy sector since Russia considers it a 'unwelcome intrusion' into its sovereign space. Such a mismatch of logics leads to the exclusion of the EU investors by Russia from the process of energy production and underlines the difficulty of both sides to recognize as legitimate their respective interests concerning the regulations and conditions provided for investment.

This analysis of the EU-Russia conflictual issues of the ED and the ECT with the help of interpretative model gives grounds to suggest that the reason for conflict emergence is the mismatch of deployed logics which is caused by asymmetric conditions of integration and the difficulty to recognize as legitimate each others 'sovereign' interests.

6 Conclusion

The purpose of this study is to contribute to deeper understanding of the EU-Russia energy partnership. Due to the fact that energy relations are hotly debated in the EU and Russia and such discussion reflect the substantial differences in visions on how to proceed with cooperation, the aim of the study was to answer the question of why the conflictual issues occur in EU-Russia energy relations. My ambition was to approach this problematic aspect of EU-Russia relations as objectively as possible. Therefore, the innovative approach to the understanding of the reasons for conflict emergence was adopted in this paper. Having done the empirical research and analyzed it with the help of the interpretative model it is possible to summarize the main findings.

First, the identified cause of conflict emergence in the EU-Russia energy relations is the clash of logics deployed by the EU and Russia in their opted for foreign energy policies.

Second, this clash of logics is conditioned by either asymmetric integration which suggests hierarchical inclusion of the integrated party by the integrating or by the difficulty of both sides to recognize as legitimate their respective sovereign interests in the energy sector.

Third, it is possible to observe that *both* the EU and Russia have deployed *both* logics – integrationist and sovereign – in their energy strategies towards each other. Nevertheless, some generalizations about the preferences of Russia and the EU in their foreign energy policies can be identified. In this connection, it can be concluded that Russia's dominant logic deployed behind chosen policies is sovereign. As for the EU, the deployed logic is predominantly integrationist (though quite asymmetric). Such difference in the predominance of particular logics in the opted for policies of the EU and Russia can be attributed to the fact that relations between the EU and Russian in the energy field are characterized as relations between consumer and producer countries what in its turn means that they have different interests towards each other and therefore pursue different policies.

The last conclusion of the analysis is that asymmetric interdependence in the energy field intensifies the conflictual issues and presents an obstacle for further cooperation. According to the theory, interdependence should be the reason for cooperation between the interdependent actors. However, the analysis of the kind of interdependence that exists between the EU and Russia suggests that it is an asymmetric interdependence where Russia has more grounds to consider itself less dependent

which gives it an additional source of power in the bargaining process over conflictual energy issues.

Finally, I would like to present ideas about further research on this topic. I believe that it would be both interesting and challenging to explore how the cooperative outcomes can be reached in the management of the conflictual issues examined in this study. What kind of pattern of the interpretative model – the pattern of mutual delimitation or ‘common spaces’ – is most appropriate in the EU-Russia energy relations and which of them, taking into consideration the existing realities, can be reached i.e. what is more likely: the possibility of locating the lowest common denominator or reaching a mutual consensus of the parties to open up their sovereign spaces to each other.

In my opinion the results of this paper acquired with the help of the innovative approach can contribute to a deeper understanding of the EU-Russia energy relations and present an alternative reading of the emergence of conflictual issues in the EU-Russia relations.

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