

WHEN DRUZHBA PIPELINE DRIES OUT?

Key words:

Crude oil, pipeline, “Druzhba”, “Friendship”, BTS, refinery assets, processing,

Summary

The author deals with the subject of possible shortages or the change of the directions of oil deliveries, the change in the logistics structure of oil supply in Central Europe. The factors causing the present situation, the proprietary changes of refinery and logistic assets were described. The possible sources of pipe deliveries, apart from the sea logistics. The situation of Poland and Baltic states was emphasised. The possible influence of the pipeline logistics on the safety of deliveries and oil supply to refineries was described. The answer to the title question is: ” soon!”

1. Introduction

Heated debates around the shortage of the Russian gas deliveries to Poland are reported in the last weeks. The gas shortage makes the newspapers headlines, however does an average citizen of Poland or Central Europe comprehends the energetic (fuel) reality deprived pipeline oil deliveries? Probably not. There is now the second generation living with the conviction, that deliveries other than by „Druzhba”, although possible, are economically less viable, and thanks to the existing infrastructure we enjoy cheaper petrol or diesel. Besides, the majority (in the contrast to Russian rulers) treats the matter of the deliveries of oil and gas as two separate issues. Few bother to try to comprehend energy policies of the largest raw materials super-power of Europe and Asia, in the context of hard line global policy conducted by duo Myedvyedyev/Putin. I would like to focus for the moment on the bright Russian message sent from Westerplatte – on the „technical matter” of the Polish-Russian contract, and this has been mentioned not in the context of THE EURO-POL-GAS, but the emerging issue of the lack of pipeline deliveries of oil to Poland.

There is a general conviction that the construction of the great system of oil supply from the deposits in Russia and Kazakhstan to Central Europe took place just in the latter part of the fifth decade of the previous century. According to Mieczyslaw Alfred Chądzyński[2]¹: „The birth of the idea about pipeline construction dates back to 1958 , when preliminary talks were held on this subject by the team of interested countries. The Economic Committee of The Council of Ministers adopted - famous then - resolution No 501. about the construction of

¹ Original spelling kept, authors’ comment.

the oil pipeline across Poland. The Russian side introduced the general pattern for the construction of the whole system of the pipeline network. This pattern included design of the section from Mozyra in Byelorussia through Poland with the constant diameter of DN 500, Pr 7,5 Mpa. [...] finally DN 600, Pr 7,5 Mpa. for the section from Mozyra to Plock. The Polish section of the pipeline was also distinguished by the use of graduated pipeline wall thickness along the diameter following the curve of pressure fall and taking into consideration all possible variants of pumping stations performance. This brought considerable economies in the use of steel while manufacturing the pipes and it also lowered the costs of the construction.

1959 was committed to organizational, technical and technological works connected with the designing, construction and operation of the Polish section of the piping. The enterprise called "Friendship Oil Pipeline Operation Under Construction" with the headquarters in Warsaw was established within framework of CPN. The enterprise after delivery of the first stage of pipeline on the 1st of January 1964 altered its name to "The Enterprise For Operation of Oil Pipeline "Friendship"" and headquarters were moved from Warsaw to Plock.

The implementation of the project design works and operations of the Polish section of the pipeline was delegated to The Design Office belonging to CPN the "Naftoprojekt" in Warsaw. The office had the seat in Al. Ujazdowskie near the square Na Rozdrożu

Upon analysis of the documents that became accessible to public, it is probable, that the decision to construct this world largest pipeline system (over 4000 km in the "Druzhba system alone) was taken already in 1956. It constituted a strategic political decision (understood as the one of military significance) taken as a result of Hungary October Uprising. In January 1955 just after Stalin death (5th of March 1953), and still over a year before Khrushchev secret report, the Polish party management (Polish United Workers' Party) decided on partial "settlement of accounts" resulting from the crimes of the Stalin period. This was especially valid in the army forces. "Mistakes and distortions" were particularly visible there. With tension mounting the two-day meeting of The Central Core Activists of The Polish Army was planned on March 1955 and it was called to deal with this subject. The contemporary minister of the national defense marshal Rokossovski presided over the meeting. Representative of the Main Political Board delivered the report relating to the subject of „rising of the military discipline, loosened in the result of certain events in the country". In aftermath of his speech no one dared to speak, however after a while a heated discussion flared up bearing features of an open rebellion which was stopped by Rokossovski who condemned debating parties, took

back the floor and finished the meeting which was held in presence of Soviet officers and generals.

This occurred at the time when Tito's Yugoslavia drifted away from the influence of the USSR, when China affirmed clearly that the USSR should not interfere so ostentatiously in internal (also the party) affairs of the socialist states. Eventually in October 1956 the Secretary of Polish United Workers' Party Eduard Ochab, relinquishes his position to Wladyslaw Gomulka. Khrushchev was in despair and angry. He found Gomulka to be "the rebel" (as he refused joining in Stalin's condemnation of marshal Tito in 1948 r. As a result Gomulka was devoid of all functions and arrested). Khrushchev arrived in Warsaw suddenly, unannounced on the 19th of October with a delegation in which there were: Vyacheslav Molotov (one says that such demonstration was arranged to scare Poles with the possibility of "repetition" of the Ribbentrop-Molotow Pact) and Iwan Koniew, commander of the armed forces of Warsaw Pact, capable to give the dispositions for the direct armed intervention of Soviet Armies being stationed in Legnica and Borne - Sulimowo. The armies began marching towards Warsaw. Khrushchev backed down under the pressure from the leader of People's China, Mao Tse-tung², who did not agree with such intervention. Soviet "march on Warsaw" was stopped, and Gomulka assigned to the position of the First Secretary of The party for the very prosaic cause. At this time the supplies of liquid fuel under the direct competence of the Red Army were only 3 days worth.

The Soviet delegation came back to Moscow on the 20th of October, but Koniew advisers pointed at the urgent need of improvement of logistics and the supply of armed forces and aviation deployed and stationed in the conquered countries of Eastern Europe. The first plans of the change of the war doctrine for the Warsaw pact appeared. Quick political and economic arrangements were the effect of military plans.

The Economic Committee of Council of Ministers issued resolution of No. 2/59 dated 5th of January 1959. It stated that "People's Poland" begins to build Mazovian Refinery and Petrochemical Works.

By strange coincidence the legal act, of 13 January 1959 is issued in East Germany and a corner stone is set under the building of the refinery in Schwedt in GDR on 11th of November 1960. By the decree No. 846/1960 of the Minister for Heavy Industry in Hungary dated from the 1st of October 1960. firm DKV (Duna Refinery Firm) was established. The raw material logistic power for the army of the Warsaw Pact is awaken.

² Mao Zedong – contemporary spelling kept. The 1st secretary of Communist Party of China

Russian Oil and Natural Gas at a Glance



Figure 1: The logistics infrastructure of oil and the natural gas from Russia

Source: [www.eia.doe.gov/emeu/cabs/Russia/images/Russian Energy at a Glance 2007](http://www.eia.doe.gov/emeu/cabs/Russia/images/Russian_Energy_at_a_Glance_2007).

The pipeline "Friendship" (pipeline Friendship, Трубопровод "Дружба"), as Russians sources report, is a system consisting of about 6000 km of pipelines (together with the Asiatic part), being the largest system for oil logistics in the world. The contract for the construction of „Friendship” was signed in Prague on the 18th of December 1959 by the leaders of the states of Council For Mutual Economic Aid³ the (USSR, Hungary, Czechoslovakia, Poland and GDR). The pipeline construction officially begun on 10th of December 1960. The most important economic decision was the introduction of the exports standard for hydrocarbons (oil REBCO/Urals and natural gas)⁴. Samara was the initial point for the system located in south-east Russia, where oil from western Siberia, Ural Mountains, Caspian Sea is collected till the present moment. It was there, where they laid down first pipes about 1020 mm diameter (across the whole territory of the former USSR from Samara to Uniecz in The district of Brainsk). The Brainsk district was location of a distribution system

³ The Council For Mutual Economic Aid (RWPG) was created upon Stalin initiative during the Moscow conference (5–8 January 1949). Formally the organization came into being in Moscow on the 25th of January 1949. Bulgarian People's Republic, Czech-Slovakian People's Republic, Romanian People's Republic, Hungarian People's Republic Poland and German Socialist Republic, and Soviet Russia were its members.

⁴ European Union does not have such standard until today neither for oil nor for the natural gas.

where the pipeline branched out in the direction Ventspils with a pipe of 800 mm diameter (Uniecza, Polotsk, Możejki (Mazeikiu Oil; Mazeikiai, MN), Ventspils) The next branch of the pipeline from Briansk went west to Belorussia, where „The Friendship” separates on two lines. Northern line through Poland to Eastern Germany and South Line across Ukraine, Czechoslovakia to Hungary. (The south branch of „Friendship” runs to Ukraine, in Užgorod the system separates on two lines, one to Slovakia (Druzhba1) and second to Százhalombattain Hungary, (Druzhba 2). Druzhba 2 is also joined with pipeline Adria, from Százhalombatta in Hungary to the harbour Omisalj in Croatia (over the Adriatic Sea)).

Construction works of the system of pipelines took four years, though first deliveries of oil from the deposit „Budkowce” to Czechoslovakia were recorded as early as February 1962. Within one and a half years oil was delivered to Hungary. The section Mozyr was finished in the end of 1963 - Brody and Mozyr - Brest. This gave the possibility of the beginning of the deliveries of oil to Poland and GDR. All indispensable installations and objects were built until mid 1964 and the official ceremony of the system opening for operation took place on the 15th of October 1964. Until 1974 another, earlier planned, line was laid down (mirror image of the first one) the second thread of the 1220 mm in diameter. The Russian part of the system was operated from Lvov until the break-up of the USSR, and the main dispatcher's office transferred after the break-up of the country to Briansk. It is managed by Transneft (OAO "АК "Транснефть").[18]

The pipeline uses its capacity of about 1,2 to 1,4 million barrels daily (approx. 60 to 70 millions tons per year). The construction works over the Polish "third thread" (to take over from the „first” which could become a product pipeline after upgrade and modernization) are being continued. We display an interesting scheme below (please, note the colouring) featuring the pattern of the pipeline system „Druzhba”. It appeared on web pages in 2006.



Figure 2: Pattern „The friendship/Druzhba” intertwined within the infrastructure of the EU oil logistics systems.

Source: www.stratfor.com.

The refineries located in the countries of Central Europe are supplied with oil mainly from the eastern direction at present. The last decade of the last century witnessed a slow process of the supply diversification testing in Central Europe. Initially it was to be observed in Poland (the pipeline joining Plock with Northern harbour in Danzig, followed by Czech Republic diversifying its deliveries by taking part in the construction of IKL pipeline joining Czech Republic with German system and the opening of the possibility of deliveries to Kralup from Triest on the Adriatic Sea.

In 2006⁵ oil and products coming from oil processing covered 37% (673 millions from 1825 millions toe) from the demand on the prime energy of EU27 countries (Mtoe)⁶. The production from oil derivatives amounted to 123 Mtoe in the same period. This was obtained in 84% from the imported oil.

“The PRIMES” in their base scenario⁷ of 2007, which takes into account the primary EU energy policy implemented by the end of 2006, with oil prices estimated at 61\$ for a barrel, shows, that by 2020 oil from 702 Mtoe, will still be accounting for about 35% of the primary energy demand estimated at 1968 Mtoe. Notwithstanding the present financial and

⁵Data based on Eurostat. The data is illustrated in order to picture the scale of the problem in context of UE data.

⁶Eurostat: "Energy – Yearly Statistics 2006" from 18.01.2008 r.(New publication is planned for the III quarter of 2009)

⁷http://ec.europa.eu/dgs/energy_transport/figures/trends_2030_update_2007/index_en.htm

energy crisis and (surely temporary) fall in demand on energy, in the next decade oil will maintain its position as the basic component so-called energy mix. This means for the EU27, that over 90% of consumption will be sourced from oil import by 2020.

Besides, EU⁸ countries with the exception of Denmark, (Great Britain only until 2006 was not net importer of oil, thanks to the production from North Sea) are all net importers of oil.

It is obvious, that the North Sea, for many years the main oil productive region for Western Europe, in spite of application of improved techniques and oil mining technologies, becomes the area where output will fall.

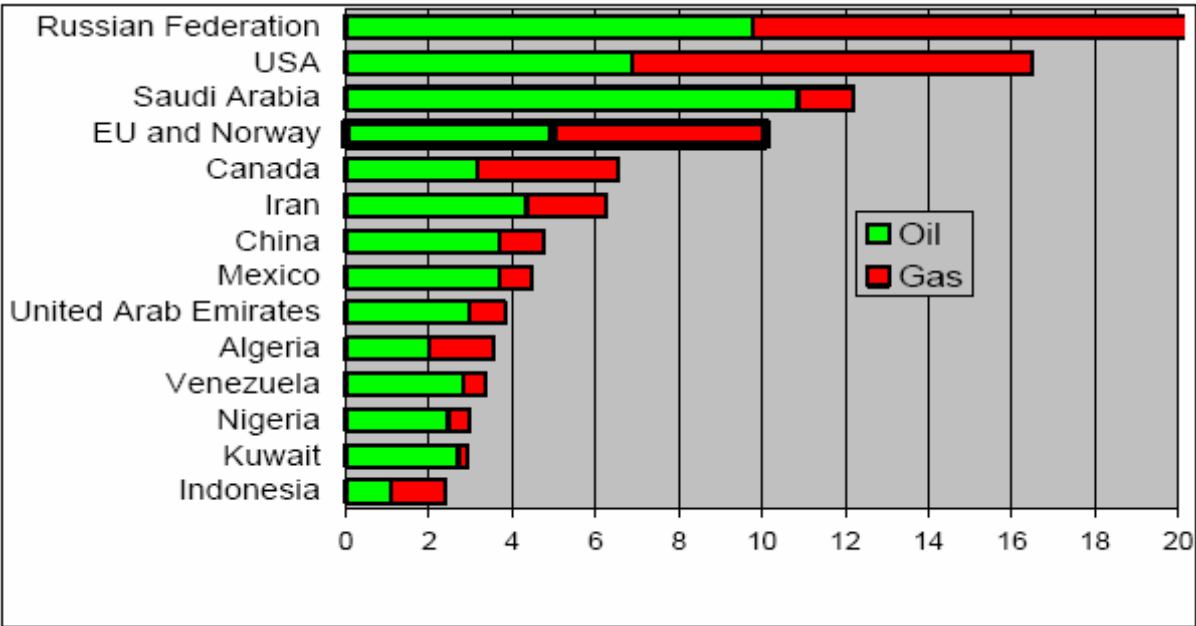


Figure 3: Daily production of gas and oil in the millions of equivalent barrels of oil

Source: BP Statistical Review 2007

Internal market of oil and oil products for the EU27 can be seen is an open market, generally free with certain amount of protectionism by the member states towards “their” local firms and assets.

The largest, but not the key problem of the EU energetic safety seems to be lacking connections between western and eastern oil transport systems, despite the well developed network of pipelines. The majority of imported oil (near 80%) reaches EU by tankers, thanks to very well developed system of oil ports (trans-shipping terminals) and only remaining part is delivered from deposits using system “Druzhba” and Norpipe (North Sea).

UE pays attention to the growth of the international sea oil logistics, particularly taking into consideration the growth of oil import by EU countries, particularly because of the

⁸ We do not consider here the case e.g. Romania, where some analysts are consider such possibilities exist.

increased danger of ecological catastrophes connected with the sea transport of oil and considerable enlargement of the movement of oilers on European waters near the logistic port centres.

Raw materials and petroleum derivatives supply situation of EU-27 countries is stable enough, so one can presume the following conclusions for the medium-term perspective up to 2030:

It is observed, (taking into consideration an age and equipment of European refining plants) a structural (productive) deficit of fuel, oil and overproduction of petrol. This situation will depend on the number of diesel-engines increase by cars users;

Lack of fuel oil will be compensated by extended import or (which is less probable) by investments in new refineries;

In next decades increasing demand for refinery products will determine a toughening of environmental standards, particularly for the transport sector, new systems of emissions trading for this sector, and probably unification of tax rates for various products;

Recently there is a global discussion on about 200 new refinery projects in general, that can cause an enlargement of refinery capacities in EU-27 for about 5 millions barrels (Mbbbl) daily till 2012. This amount will hardly meet the growing needs of EU, but in perspective of 2020 an additional refinery capacities or extended import are to be planned.

Let's linger on the oil pipe line logistics subject for a moment. In consideration of supply to Central Europe (fig. 4) via already mentioned Norpipe pipeline, 354-kilometers long and 34" in diameter, connecting Norwegian shelf (field Ekofisk, Eldfisk, Embla, Track, Valhall, Hod, Hives Gyda and Tamber) with Great Britain, it has no any significance.

The owners of the pipelines are mostly international corporations with deep geopolitical relations.

TAL⁹, (Trans Alpine Pipeline) which enables transportation of oil from Triest in Italy to Austria, Germany and further to Czech Republic, belongs to the companies¹⁰, operating in the countries through which the pipeline passes. The similar situation concerns SPSE¹¹ connecting French port of Fos sur Mer with Feyzin refinery and it runs further to Karlsruhe

⁹ In 2007/2008 TAL transported 34 Mton of oil in average.

¹⁰ Deutsche Transalpine Oelleitung GmbH (D), Transalpine Ölleitung Ges.m.b.H (AT) and Società Italiana per l'Oleodotto Transalpino S.p.A (IT)

¹¹ SPSE Société du Pipeline Sud-Européen <http://www.spse.fr/en/accueil/index.html> transfers about 23 Mton per year.

and Reichstett in Germany, and RAPL¹² connects Rotterdam with Antwerp and Wilhelmshaven.



Figure 4 Pipings in Central Europe

Source: [7] SEC 2008_2869en

Figure [7] shown above clearly indicates that pipe line connectivity between Eastern and Western Europe is very limited. This results from the remaining division of the countries emerging after the II World War and was exasperated during the cold war period.

The only pipe line connection between Eastern and Western Europe system is IKL (Ingolstadt-Kralupy-Litinov) built in early 90s of the XX century¹³. The most obvious connection would be sixty kilometers long link (discussed many times during the last years) between Bratislava and Schwechat near Vienna. (The basic problem (sic!) here is the danger of destruction of ecologically protected areas of Danube River).

¹² Rotterdam Antwerpen Pijpleiding <http://www.rapl.nl>

¹³ Ingolstadt-Kralupy-Litinov 349 km length with transport capacity of 10 Mton per year (Vohburg and der Donau – Central Crude Oil Tank Farm in Nelahozevcs) http://www.mero.cz/en/ikl_technicke_udaje.html

The most awaited and at the same time the most sensitive politically would be an extending of „Druzhba” system to the closest so-called deep water harbor in Wilhelmshaven in Germany (together with a possibility of its two-way operation) [8].

ChemLog



Urgent need of better logistics connection between Poland and EU
Reverse pipeline – „Druzhba” extension

Routing / New Pipeline for crude oil Transmission



Chemical Logistics Cooperation in Central and Eastern Europe

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Figure 5: Possible extending of Druzhba pipelines system by Wilhelmshaven [8].
Source: www.pipc.pl slide from the Presentation of Wojciech Lubiewa-Wieleżyński

Baltic Pipeline System

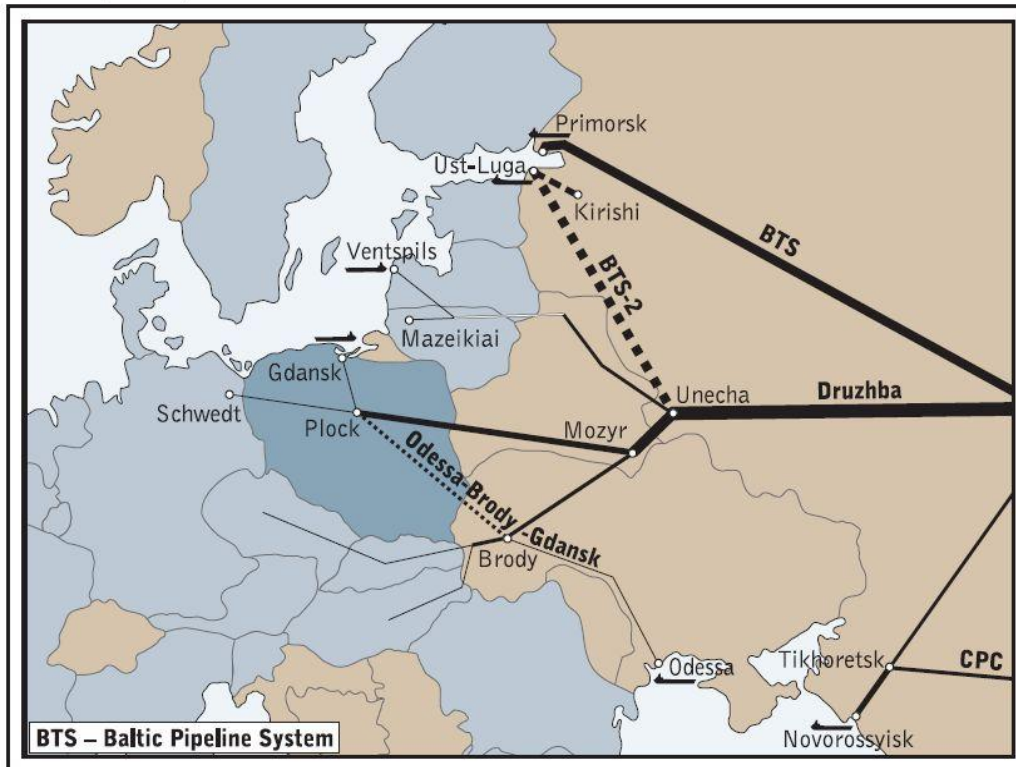


Figure 6: Planned and main existing directions of Russian oil export. (BTS;BTS 2)
Source: www.transneft.ru [18]

As early as 1997 to diversify the Russian export routes, Transneft [18] began construction of so-called Baltic Pipeline System (BTS- Балтийская трубопроводная система), which was finished in 2001 to reach transfer capacity of 65 million tons per year in 2006. Pipeline deliveries of Russian oil to Latvian harbor Ventspils were canceled already in 2003. In 2006 for the reason of noticed „leakages” and just shortly after PKN ORLEN took over the refinery in Mozejki, Transneft stopped deliveries of oil to Lithuanian terminal in Butynge. Russia never agreed for joint checking and repairing of “damaged” pipeline. Transneft’s decision apart from placing refinery „Mažeikiai” and Baltic Countries ports in a very difficult economic position allowed at the same time to avoid payments for transit through Belorussia and Ukraine territory. As a result full Druzhba’s transfer capacity decreased from 100 million tons to approx. 65-70 Mton per year.

On the 18th of February 2008 Russian Lukoil suspended deliveries of oil to Germany by “Druzhba” pipeline „until recall”[12]. It was already third break of deliveries to Germany during 13 months. Earlier, in January 2007 Transneft stopped deliveries to more than ten UE countries for three days. In February of 2008 the official reason was the price for raw material seen as too low. Then Lukoil did not deliver 520.000 ton of oil to Germany for two

refineries: Schwedt and Leuna. Shareholders (Shell Deutschland, BP/Ruhr Oel, ENI-Agip, and Total of France) were shocked. All of them own their assets and shares in down- and up-stream businesses in Russia. They were very well perceived there (ENI e.g. in South Stream, Total - Shtokman deposit, Shell - Sakhalin-2 deposit, BP in Kovykta). For some time they said publicly that Shell had offered its share in the largest German refinery MIRO in Karlsruhe to Rosneft in return for „access” to new oil-bearing deposits in Russia.

The test of the political workings of Russia and Germany on the highest level in the energy field was successful. The refineries Schwedt and Leuna can at present rely on deliveries (and also filling in large warehouse capacities) sufficient for full capacity operation on short notice from different sources. The delivery from Rostok (min. 9 million tons per year), and so-called backup from Naftoport from Danzig. (Look Figure 4).

This constituted a nice “entry” by Lukoil acting on the order of Kremlin. Russians found out that they could, without risk, direct, if not the whole, then surely the part of hitherto existing deliveries using the pipeline Druzhba to the extended system of Baltic Pipeline (BTS and BTS 2). However the purpose is the maximization of the export of oil using oilers through Baltic Sea was the maximum reduction of transit by Druzhba section crossing Belorussia, Poland and Ukraine.

Germany import on average 22-23 millions of the tons of Russian oil per year (1,8 to 2 millions of tons monthly). From this volume of delivery Lukoil delivers about 6 million tons per year (500,000 tons monthly), with the remaining deliveries are coming from Surgutneftegaz. Additionally, as consequence of events from January 2007, when Russia again claimed their rights to pipelines in Belorussia, the Russian government approved building Baltic Pipeline System-2 (BTS-2) in May 2007. The BTS-2 is a system capable of forwarding up to 50-75 Mton per year, it runs from mentioned already Uniezza to terminal Ust-Luga (near Primorsk). The project was designed to enable enlargement of Primorsk terminal capacity to 150 Mton per year.

The BTS-2¹⁴ project will cause decrease of the oil quantity transported at present via Druzhba system, because experts do indicate the growth of oil extraction mining abilities in Russia. Such additional volumes of oil do not exist. This obviously will considerably increase intensity of oilers traffic in The Baltic Sea. In the period of 2000-2007 the volume of oil

¹⁴ It is estimated, that the costs of BTS-2 project will be approx. 2-2,5 billion USD, and the costs of transportation will be higher than those born by shippers on „Druzhba” at present. In spite of this Russia by the declaration of Prime Minister V. Putin decided to increase the fantastic pace of the pipeline construction with its completion in the end of 2011.

shipped through Danish Straits was increased twofold from 80 Mton to above 170 Mton. The subject of sea transportation through Danish Straits deserves separate treatment. We will only display the following drawing here, in order to show

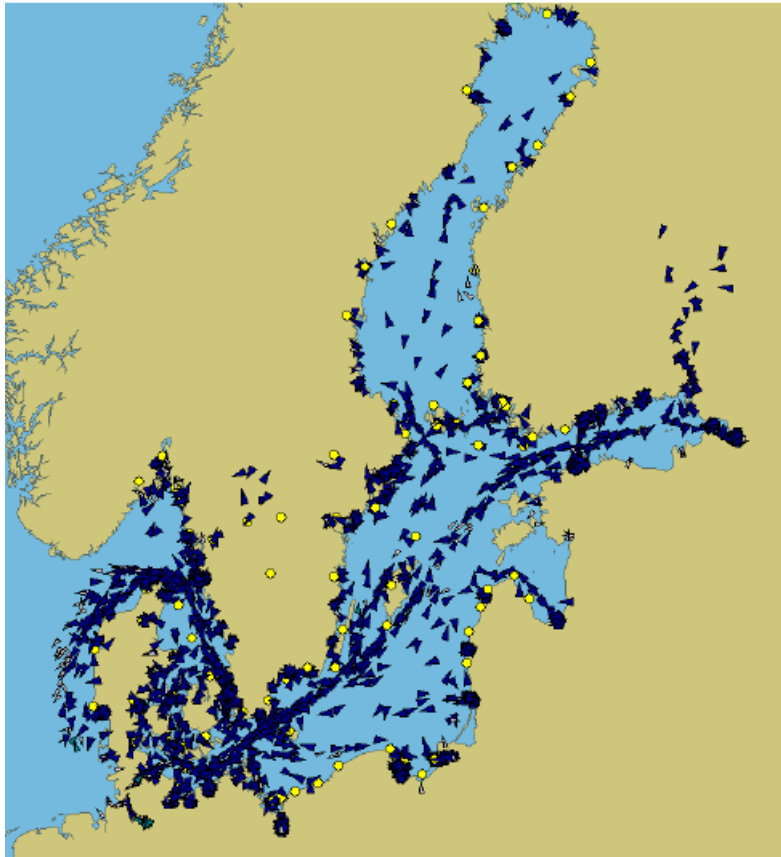


Figure7: "Picture" of ship movement on the Baltic illustrating the main sea road from Primorsk in Russia [9]

Source: Maritime Transport in the Baltic Sea Draft HELCOM Thematic Assessment in 2006
www.helcom.fi

this as an example of: the ecology aspect of this issue, or to indicate matters connected with the growth of possible sea accidents.

The end of XX century and first years of XXI century witness intensive consolidation activity and takeovers of logistics, refineries and petrochemical assets across Europe. The restructuring began in Eastern Germany¹⁵ in Leuna and Schwedt by creation of processing management. Simultaneously the Czech government established the chemical processing group (ENI, SHELL, ConocoPhillips, UNIPETROL) in Litvinowo and Kralupy. Taking over Slovak Slovnaft by Hungarian MOLE was seen as spectacular failure on the part of ORLEN

¹⁵ Processing – the cost based model of the refinery management. The owner of processing capacity (not necessarily the owner of the stock) entrusts his raw material to the processing, paying in advance and receiving the refinery products according to his order.

and the consolidation Hungarians position in Central Europe. The fight about taking over The Gdansk Refinery, double sale of Mozejki, purchase of stock of Romanian firm SNP Petrom SA. by OMV and the winning auction by PKN ORLEN for Czech Unipetrol, MOLE acquisition of Croatian firm INA Industrija Nafte d.d. - these are merely examples from the area of refinery assets changing hands. In all presented transactions interest to purchase, or taking part in auctions was shown by various consortia of Russian firms, mainly by Yukos, LUKOIL, but also the TNK-BP, joint venture created by BP and Tyumen Oil or Kazakh KazMunaiGaz, that even now during the crisis look for interesting assets to take over in Central-Eastern Europe. Practically only Austrian OMV emerged as victorious out of the war on assets. Seriously scarred however defended against hostile take-over emerged MOL, and significant defeat Polish ORLEN. Let the following slide be the best evaluation of these events:

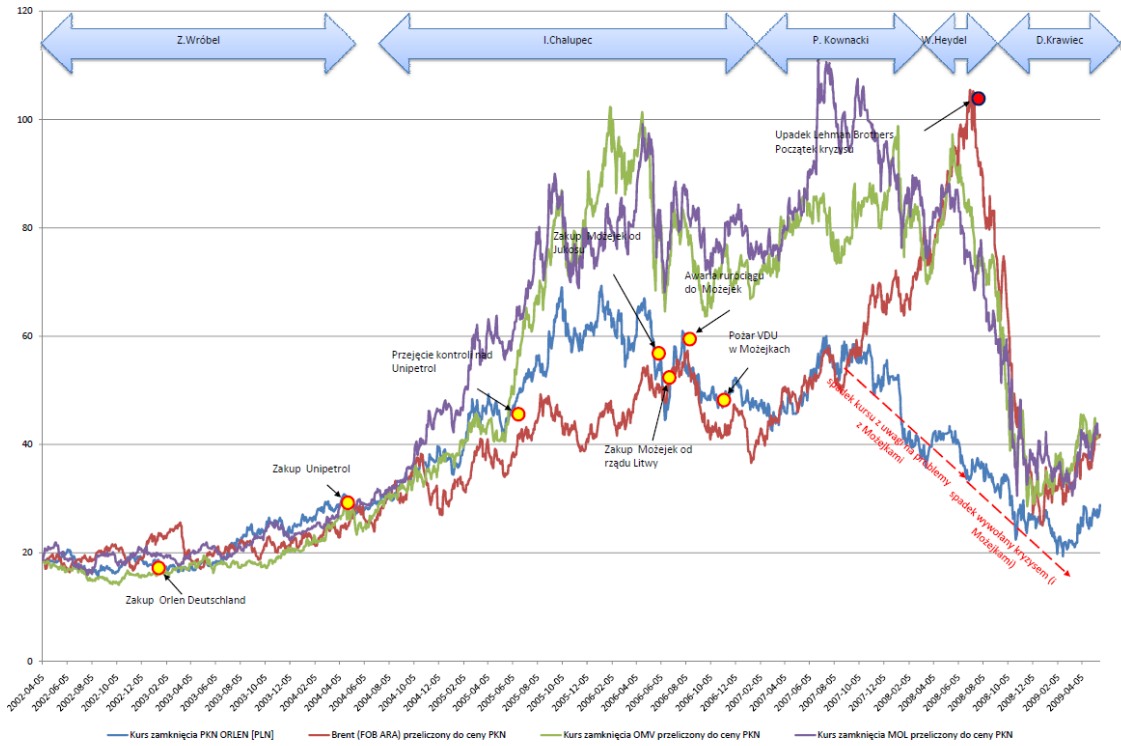


Figure 8: Graph: the Market price of the stock OMV, MOLE, PKN Orlen SA vs. the price of oil.
 Source: Martin Krupa, Institute for Energy Studies. Own calculations on the basis given Money.pl and EIA

In the first quarter of 2008 the daughter company of GazpromNeft took over 51% of Serbian refinery company (consisting of refineries with processing capacity approx. 7 million. tone

per year). Aleksandr Djukow, then the president of Gazprom Neft, admitted that Russian firm was interested in the purchase of this type assets in Europe, though he also affirmed, that this was a far prospect. Subsequently he denied that any talks were held on the exchanging Gazprom Neft mining assets in Russia for refineries or the networks of petrol filling stations in Europe.

One now one could say „it's easy to be wise after the event”. Rejection of the conception featuring inclusion of the so-called strategic alliance with the European department of the concern American ConocoPhillips in end 2005 by the authorities of MSP and PKN Orlen can be described as unfortunate. According to J. Strzelecki [19]:” the basis for building tight economic relations and the accomplishments of selection of strategic partner for PKN Orlen were defined in 2004 , within a framework of purchase by PKN Orlen of majority of 62,99 % of stock of holding company UNIPETROL in Czech Republic. According to my knowledge this conception, coordinated confidentially by contemporary surroundings of the Prime Minister of the government of Polish Republic Professor M. Belka, assumed that up on reaching successfully common objectives by both concerns on the Czech market, a joint venture company could be created by PKN Orlen and ConocoPhillips, to which both their European companies could contribute trade and logistic assets. Preliminary works were begun in PKN ORLEN in 2004/2005 over defining the concept and construction of business model. The distinctive advantage of choosing the new strategic partner for PKN was – apart from benefiting from sector experience and know-how of ConocoPhillips – obtaining the possibility of access to the new sources of the deliveries of oil, based both on mining assets belonging to ConocoPhillips and its strong business relationships with the Russian concern Lukoil. In the autumn of 2004 , during the Prime Minister Belka visit in the USA opinions on this matter were exchanged with members of the board of ConocoPhillips”.

However the biggest loser over the war on European assets was great Russia headed by Putin, and particularly Russian energy policy in the area of obtaining access to final users and suppliers of oil products. One of the worlds' richest energetic power – Russia was left on the lost ground, despite excellent offers that they placed, they were not capable to negotiate viable acquisition contracts. This began a redefinition process of the Russian energy policy.

The detailed description of Russian energy policies to 2020, could become a subject for at least several scientific dissertations, particularly in view of the fact that this document is already the subject of change¹⁶. Interested readers can be referred to the another publication

¹⁶ From 2007 the concept of „The strategy...2020” is being changed. In its new form it is known as "Energy Strategy of Russian Federation to 2030 r." The co-ordination of the energy policy of Russia with the energy

[7] and to the accessible literature [5][6][10]. I will refer here only to the main theses of the Russian policy relating to the European direction which were expertly gathered in publication by Marcin Bodio [1].

They include:

- Strengthening of the Russian influence on processes on the energy market of UE
- Russian interest is placed above the partners energetic safety
- Maintaining and protecting the monopolist position in the deliveries of hydrocarbons
- Extension of energy sale to new markets (USA, INDIA, JAPAN, CHINA)
- Maintenance of the principle of superiority of bilateral relations with the member states over the relations Russia-UE
- The enlargement of ownership in downstream and logistic assets
- Presence in the largest investment projects
- Undisturbed safety of deliveries – preferably direct deliveries to the largest markets
- Conclusion of all long-term contracts on the deliveries of hydrocarbons as a priority.

As it was justly ascertained by M.Golębiewska[6] „Years of "2020 Strategy Implementation" (till the present moment) confirmed strength of the Russian strategists who use energy for attainment of their overseas objectives ("The Strategy 2030" refers to Russia as the "ideological flag ship" of the global energy safety).” The inefficient link, as it turns out, in the process of „ 2020 Strategy” implementation was the process of modernization of energy market in Russia, despite initial progress on this field. The current energy and economic safety of Russia was assured till the moment of the raw material crisis, and authorities were rested on the success and fast asleep.

It should be underlined, that according to the concept presented in "The Energy Strategy for The Russian Federation to 2030" the first crisis was anticipated for 2009-2012, when the barrier of the lack of competitive resources and shortage of hydro carbonaceous products was to appear and contribute to break down the world economy. The declaration passed from the last energy summit at Amur between Russia and UE indicates further, ruthless growth of the powerful pressure of Russia on foreign partners and international markets.

It is justified in the source quoted above [1], that Russia was determined and resolved in conducting their energy policy, based on limited believe that EU extension of 12 new states in

strategies of key states and regions, and European Union is being announced”. There is no precise definition of this term. For the time being ratifying of “Energy Charter” of 5/08/ was rejected as a replacement of the energy treaty proposed by Russia.(cf. M. Kaliski, And. Coalmouse, And. Szurlej „The lesson for European Union from the Russian - Ukrainian gas crisis from the beginning of 2009”. UE Cracow 18th of May 2009.)

May 2004 would happen. At this time Russia finally lost control on existing routes of pipeline oil transport. The economic influences of Russia weakened in the regions that traditionally „were always the object of interest and the influence of Russia”, when her - old Soviet assets unexpectedly changed the owner and they become immanently connected to the new creation, that does not have their own army, and acts according to not quite clear principles of the democracy, then one must work according to a doctrine published in doctor's dissertation of V. Putin from 1997, today already publicly inaccessible.

Years 2005-2008 meant a raw material boom period, when the monetary reserves of Russia grew up not many-fold but by hundreds of times, when Russia began to take position of not just a strictly military, but surely also energy superpower. When every European or American energy concern made advances to be present in Russia.

- Today¹⁷, over three years after 29 July 2006 when supplies to Mozejki were interrupted, one can clearly state, that Russian decision about stopping deliveries of oil to Lithuania, after „finding” multiple leakages from pipeline on the Russian territory [18], by the state Russian, company Transneft, was well prepared political decision, particularly in the context of also politicized purchase of Mozejki refinery (MN) by PKN ORLEN S.A. (Contract from 15th of June 2006)

- This decision affected Russia's reputation as a credible trade partner just for a moment, but in the light of events that followed, nobody (maybe with the exception of the owner of refinery and sea terminal in Butinge) remembers about this event.

- This particular political issue was transferred on to economic ground and became a component in a larger game, and surely a strong card that Russia used in talks not only with Poland, but also with Baltic States. This issue became an indicator of Russia - UE relations in energy sector and a marker of how far Russia can interfere in the energy assets of UE.[12]

- Considerably better public relation skills than the contemporary president of the board PKN ORLEN Igor Chalupiec are manifested by Transneft CEO, Semyon Vainshtok, who decisively denied that the decision had any political ground and stating that he does not work under the pressure of Kremlin, and that it does not have anything in common with the purchase of MN by PKN ORLEN.

- Purchase of Mozejki is the most expensive purchase of refinery assets in modern history XXI. It is estimated that the price paid for assets refinery was highly over its value by

¹⁷ In 2003 Russians gave up services of Latvian Ventspils.

exceeding it by more than USD 1 billion (more or less the same amount as written off at the end of June by the board of PKN- as so-called „positive goodwill”¹⁸)

- Paradoxically, the largest beneficiary of the lacking pipeline supplies to MN and lack of export possibilities of Butyngie is Primorsk harbour.

That is why the thesis, that if no mediatory factor capable of opening a dialog is found in the next forthcoming weeks, and the face-saving solution is found to the current crisis, the section of Druzhba crossing Poland – alike Polish-Russian friendship originating from well known to older generation TPPR (Society of Polish-Russian Friendship) will dry irrevocably. There is still time left to give a chance to exit from this “clinch” „with a saving face” for both parties. Is Russia not interested in enlargement of the export of oil by sea and its processing before further sale? Is Germany and Poland not interested in increasing safety of supply for their refineries and enlargement of import and storage abilities? Would supply guarantee and energetic safety, not warrant an investment in the European steamcracker, for example in Płock in order to increase access to quickly growing market of highly processed polyolefin? Or could one consider an oil hub somewhere on the Polish-German border, where the strategic oil reserves of UE would be held and rating of Russian oil with a lower content of sulphur REBCO today - P* , would be quoted, as is BRENT, (in order to use existing productive assets together with abilities of desulfurization). Is it hard to imagine the capital participation on the principles of reciprocity in definite productive, mining or logistic assets? Since approx 2000 Russian petrol stations operate in United States already, and their owner LUKOIL together from ConocoPhillips constructs a new refinery there, since the free market of hydrocarbons in Great Britain is shared with Russian, Azer, Turkmenian and Kazach firms, why is it hard to imagine that the same will happen west of Oder and Elbe? The relations with Russia should be build on the principle „large can do more”. The large Union, though without the army, is a power in energy sector, although dependent on import of raw materials. The world of XXI century is the one dominated by knowledge and know-how. It turns out (and the crisis manifested it in a ruthless way), that having access to energy materials and markets will not suffice – of course, they constitute a powerful weapon and political blackmail instrument, it is not enough, however, to show billions worth currency reserves mountain- one still should find the partner who knows how to use it.

¹⁸ in June 2006 PKN Orlen closed the negotiations on purchase of 53,7% of MN stock from Yukos International for 1,492 billion USD, however government of Lithuania sold its part of 30,66% for 0,8518 billion USD and it used. The option to sell remaining 9,98% for 0,280 billion USD in May 2009 r.

The EU – looking at it with Russian eyes - is an odd creature which has to learn how to proceed, and it just builds its energy identity. At the same time it is a creature which already has proven its economic resourcefulness many times, even in the face of the world crisis. I hope that quiet discussions already are held at a round energy table Union-Russia and the platform for co-operation is sought after, rather than confrontation.

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