

# Energy Dialogue and the Future of Russia: Politics and Economics in the Struggle for Europe

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## Introduction<sup>1</sup>

This chapter unravels some of the wider political implications of the EU–Russia energy dialogue for Russia, and also expands the discussion into EU–Russia relations and European developments as a whole. The starting point is that the EU–Russia energy dialogue, and, more broadly speaking, Russia’s role in the energy field globally, has become significantly politicized during the past few years. Even if some would consider this trend unwelcome and avoidable, a careful look at the range of issues discussed in connection with the energy dialogue leads to the predictable conclusion that the whole exercise is not – and indeed cannot be – limited to finding the most efficient ways of delivering energy from Russia to the EU.

The very rationale of the energy dialogue lies in the fact that in order to accommodate both parties’ priorities in the field of energy, one needs to address a number of other problems, some of which are relatively technical in nature, while others are highly politicized. Moreover, a thorough investigation of the structural, technical and political premises and implications of the energy dialogue suggests that these are directly related to the very nature of both the EU and Russia as political projects. The way we handle questions of energy can significantly impact not only the ‘energy security’ of both parties, but also the entire political structure of Europe. Consequently, it is impossible to solve the most pressing issues on the energy dialogue’s agenda without addressing the wider framework of EU–Russia relations and, in particular, the fundamentally political question of Europe’s outer boundaries.

In order to account for these wider issues, first, the EU and Russia are in this chapter treated as *projects* whose nature and role are continually (re)defined in political processes and which both have a crucial significance for the way we define ‘Europe’. The EU–Europe of Brussels-centred integration is substantially different

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from the Russian Europe of sovereign states and spheres of influence. Second, there is always a temptation to describe the energy dialogue exclusively as part of a mere economic co-operation narrative, which emphasizes the role of pragmatic logic of economic integration as a key factor underlying the creation of a single Europe. This chapter assumes that there is, indeed, a certain purely ‘economic’ role for Russia to play in the context of the energy dialogue: it is expected to provide Western Europe stable energy supplies which at the same time must also be safe – in environmental and other terms. But the central question in this chapter is whether this ‘economic’ role depends on any ‘political’ (or ‘cultural’) conditions. If the answer is yes, then the whole story should also be told in terms of a politico-normative narrative of Europe as a peace project (for the narratives, see Chapter 2), as well as related to the Russian narratives of sovereignty and great power politics. This is indeed where my argumentation will lead us, and this tentative conclusion will have some far-reaching implications.

But before going into more detail, it should be noted that by no means do I want to reify the boundaries between the economic and the political, or cultural realms of social life. The approach in this chapter self-consciously derives from political science, and is concerned with human agency and the nature of decision-making under conditions of indeterminacy, regardless of the substance of those decisions. Therefore, I use the labels ‘economic’ and ‘political’ (henceforth without quotation marks) as they are used in political discourse. The aim is to demonstrate that the discussion on the issues which are considered ‘technical’ and ‘non-political’, and therefore often removed from the sphere of public decision-making into the realm of technocratic politics, may have much wider consequences than usually thought of. It can therefore be said that in a certain sense, this chapter sets out to test some premises of modernization theory, i.e. the existence of a linkage between economic, social, demographic and political development. At the same time the ambition is to show that the very reliance on modernization theory – implicit rather than explicit – makes some political choices more probable than others and limits the space for political action that is, *inter alia*, a pre-requisite for the EU and Russia meeting each other in a pan-European context.

In order to realize these aims, in the next two sections I will discuss the nature of the EU as a political project and how it comes up in the energy dialogue, before moving to a more detailed discussion of the role played by Russia. The concluding section then outlines the implications with regard to what role the energy dialogue plays in the future of the wider European area embracing both the EU and Russia.

### The Post-Enlargement EU: Trapped in an Imperial Logic

The understanding of the European Union as a political project implies taking its future as far from certain. Apart from the unknowables related to the possible establishment of a Constitution for Europe, there are at least three different directions for European integration to proceed. Sometimes one cannot but make the conclusion that the Union is trying to go along all three ways.

First, the Union is trying to consolidate as a (super) nation-state with a Westphalian brand, implying a clear division between the inside and the outside and a single sovereign centre governing domestic and foreign policies. This trend is evident in the expansion of qualified majority voting, in the efforts to establish the ESDP, in the internal security policies, etc. Second, the Union is trying to ensure its external security by continuous expansion, which enables one to describe it as an empire. The Union’s governance is in this model structured as a series of concentric circles, centred around Brussels and fading towards the margins. The best illustration of this model is the policy of EU enlargement, which forces the periphery to accept certain conditions in order to move closer to the core. Third, there is a neo-medieval model which allows for power to be dispersed with multiple regional centres competing against and/or complementing each other depending on the issue in question. This metaphor arguably was behind the Northern Dimension initiative, which aimed at opening up new political spaces into northern Europe stretching over, but not breaking, the existing boundaries of national and other communities.<sup>2</sup>

Each of the three images is relevant for the Union’s relations with Russia. In accordance with the Westphalian logic, Russia is certainly perceived as a source of possible threats, which are to be warded off with such means as a visa regime, border controls, co-operation with the Russian authorities in fighting organized crime, financial aid for taming environmental threats emanating from Russia, etc. The imperial way of thinking, by contrast, presupposes that Russia is slowly but steadily involved in the concentric circles of European integration and offered incentives to move from the periphery to the core by fulfilling certain conditions, with a view of ‘normalizing’ or ‘Europeanizing’ the country and thus making it part of the continuous European political space with its centre in Brussels. Christopher S. Browning has demonstrated the paradoxical nature of the EU’s attempts to combine these two different logics in its policy towards Kaliningrad.<sup>3</sup> The European Neighbourhood Policy is developed as a possible way out of this dead end after the 2004 enlargement, when it became clear that such new neighbours as Belarus, Moldova and Ukraine can hardly be expected to join the EU in the near future.<sup>4</sup> However, in the end Brussels failed to offer a radically new approach, and the same logic of conditionality continued to apply not only to Bulgaria and Romania, or Croatia and Macedonia, but even to those states which cannot hope to become members any time soon, and for whom the incentives for focusing their efforts on meeting the EU conditions in order to move closer to the core are therefore rather low.<sup>5</sup>

2 Christopher S. Browning, ‘Westphalian, Imperial, Neomedieval: The Geopolitics of Europe and the Role of the North’, in Christopher S. Browning (ed.), *Remaking Europe in the Margins: Northern Europe after the Enlargements* (Aldershot: Ashgate, 2005), pp. 85–101.

3 Christopher S. Browning, ‘The Internal/External Security Paradox and the Reconstruction of Boundaries in the Baltic: The Case of Kaliningrad’, *Alternatives*, 28/5 (2003): 545–581.

4 Fabrizio Tassinari, ‘Security, Integration in the EU Neighbourhood: The Case for Regionalism’, *CEPS Working Document*, no. 226, July 2005 <<http://www.ceps.be>>.

5 Pertti Joenniemi and Christopher S. Browning, ‘Discourses on Centrality and Marginality: The European Neighbourhood Policy and Finnish Options of Europe-Making’,

Although Russia officially is not part of the ENP, in practice the same logic of conditionality is applied to EU's relations with Moscow and to cross-border co-operation with the adjacent Russian regions. As Dmitry Danilov from the Institute of Europe of the Russian Academy of Sciences notes with disappointment, 'Brussels still seeks to apply its own integrationist logic to Russia, which implies a steady adoption [by Russia] of the EU's standards, norms and policy'.<sup>6</sup> The following section of this chapter demonstrates that the same logic of conditionality works in the case of the EU–Russia energy dialogue, although the specific nature of the energy sphere modifies its application to a significant degree. It will be argued, then, that this logic is doomed to failure when applied to Russia in general, and that its chances for success in the case of energy are not as good as in other areas. The neo-medieval logic is often suggested as the best way out of this impasse, but its application into EU–Russia relations, as shown in the final section, will require a significant transformation of the ways in which Europe is conceptualized both in Moscow and in Brussels.

### EU Energy Dependency and Security of Supplies: the Role of Russia

One would not fall wide off the mark by arguing that the European logic of conditionality is implicitly based on the premises of modernization theory. The first official policy paper on the ENP maintained, for instance, that 'regional and subregional co-operation and integration ... are preconditions for political stability, economic development and the reduction of poverty and social divisions'.<sup>7</sup> In general, at the core of the European Union's identity discourse lies a firm belief that by consistently and simultaneously widening and deepening integration, European states will be able to leave behind the centuries old legacy of mutual hostility.<sup>8</sup> Leaving the past behind by adopting the *acquis* has also been the key idea behind the EU's attempts to deal with the legacy of the Cold War. It is easy to note that these attempts are based on the idea of a linkage between the economic and the political which forms the essence of modernization theory.

It is hardly surprising therefore that this idea of an economics–politics linkage, lying so deep at the core of the EU as a political project, is also applied to the somewhat different agenda of the energy dialogue. Yet, in this case, the main driving force for the EU's involvement is of course not the concern for 'political stability' or the desire to overcome 'divisions in Europe', but rather the need to ensure long-term security of energy supply. The European Union's Green Paper on Energy Security,

paper presented in the VII ICCEES World Congress, Berlin, 25–30 July 2005.

6 Dmitrii Danilov, 'Dorozhnye karty, vedushchie v nikuda', *Nezavisimaya gazeta*, 24 May 2005.

7 European Commission, 'Wider Europe – Neighbourhood: A New Framework for Relations with our Eastern and Southern Neighbours', Communication from the Commission to the Council and the European Parliament, COM(2003) 104 final, 11 March 2003, p. 3.

8 Ole Wæver, 'The Temporal Structure of European Security Identity', paper presented in the International Studies Association Annual Convention, Honolulu, HI, March 2005, <<http://www.isanet.org/archive.html>>.

published in November 2000, maintains that geographic diversification of supply is highly desirable.<sup>9</sup> On the other hand, the paper describes a greater dependence on Russia for gas supplies as 'inevitable' in view of the fact that about one-third of world reserves are located in that country.<sup>10</sup> Noting that 'gas supplies from the Soviet Union, and then Russia, over the last 25 years is testimony to an exemplary stability', the document stresses the need for a long term strategy in the framework of a partnership with Russia.<sup>11</sup> The need to secure stable energy supplies has an obvious impact on the interplay between economics and politics.

According to some reports, an informal agreement was reached at the Feira European Council in 2000 to decouple the EU–Russia energy dialogue from political conditionality usually applicable to the Union's relations with Russia (see Chapter 4). However, this agreement seems to refer only to 'openly' political issues such as Chechnya or the freedom of the media. The strategic vision of the EU's relations with Russia in the energy sector, as expressed in the Commission's Communication of December 2004, is still firmly grounded in the belief that the only way to ensure stability of supplies on the part of Russia is to spread the principles of the EU internal market beyond the Union's borders.<sup>12</sup> The list of priorities in the first synthesis report on the EU–Russia energy dialogue included the reform of the Russian natural monopolies, improvement of investment climate, market opening, access of foreign companies to exploration, production and transportation of energy resources, security of transport networks (including transit), and improved energy efficiency. As for long term goals, special emphasis was laid on co-operation in the field of climate change (a major concern put forward in the 2000 Green Paper) and on increasing energy efficiency, in particular, by more extensive use of renewable energy sources.<sup>13</sup> But here one should note that many of these allegedly joint goals were already included in the ECT treaty signed in 1994, and in its transit protocol, which Russia signed but never ratified. In April 2004 the ECT was finally removed from the State Duma's agenda as 'flatly contradicting national interests of Russia' and 'being imposed on Russia' from the outside.<sup>14</sup>

9 European Commission, 'Towards a European Strategy for the Security of Energy Supply', Green Paper, COM(2000) 769 final, 29 November 2000, p. 41.

10 Russia's export capacity, measured as the difference between reserves and internal consumption, is greater than that of the Middle East, Africa, Central and South America combined: see Nodari Simonia, 'The West's Energy Security and the Role for Russia', *Russia in Global Affairs*, 2/3 (2004): 102–103.

11 European Commission, 'Towards a European Strategy for the Security of Energy Supply', p. 40.

12 European Commission, 'The Energy Dialogue between the European Union and the Russian Federation between 2000 and 2004, Communication from the Commission to the Council and the European Parliament, COM(2004) 777 final, 13 December 2004; cf. Chapter 4 of this volume.

13 'EU–Russia Energy dialogue', synthesis report presented by Russian Vice-Prime Minister Viktor Khristenko and European Commission Director-General François Lamoureux, Brussels/Moscow, September 2001.

14 Chairman of the Duma Committee on Energy, Transport and Communications Valery Yazev, as quoted by the ABN on 23 April 2004; see <<http://www.gazo.ru/ru/main/news/>>

The logic behind all these measures is clear: the EU is trying to put up with the fact that it will depend on energy imports for decades to come, and to develop a stable relationship with Russia as arguably the most reliable supplier. At the same time, it is assumed that the reliability of Russian supplies would increase with the de-monopolization and internationalization of its energy sector. Growing number of actors in energy production and export would, according to this way of reasoning, mean fewer opportunities for creating price cartels and for the intervention of non-economic factors – such as the state putting pressure on energy companies to restrict supplies or increase prices for the sake of geopolitical goals. Higher foreign direct investment (FDI) in the energy sector is likely not only to make oil and gas companies more responsive to EU concerns, but also to generate additional flow of capital into the exploration and development of new reserves. Increased energy efficiency within the domestic economy can reduce the growth in domestic demand for energy, which will mean more oil and gas available for export. Finally, by developing and ensuring equal access to transport infrastructure the EU will further diversify its supplies geographically, as this will make energy resources of Central Asia and the Caspian available on the European market through Russian pipelines.

It is hardly possible to say that all these considerations are irrelevant for the EU, which is striving to overcome the relative inefficiency of its economy as compared to the US and the fastest-growing Asian countries, which, *inter alia*, requires curbing the growing energy spending. At the same time, there is a number of arguments against what Susanne Peters calls ‘putting all eggs into the Russian basket’,<sup>15</sup> including the disparity between production capacity and export commitments. As Juhani Laurila bluntly put it, ‘[s]ubstantial financing will be necessary to mobilize Russian energy resources, and their abundance is illusory’.<sup>16</sup> Thus, in spite of the much-quoted fact that the Soviet Union/Russia has been the most reliable supplier of energy for the last 30 years, some doubts persist with regard to its ability to remain equally faithful in the future (see also Chapter 2).

Some of the concerns associated with the Union’s reliance on Russia boil down to technical issues which are already addressed by the EU. Russia could significantly increase its energy exports by freeing additional resources in the domestic market, first of all through energy saving measures. An encouraging sign is that the energy efficiency of the Russian economy, which is rather low in comparative terms, is increasing faster than in the post-industrial west.<sup>17</sup> The issue of energy efficiency figures prominently among the priorities of the Energy Strategy approved by the

news\_current.shtml?2004/04/420.html>.

15 Susanne Peters, ‘Courting Future Resource Conflict: The Shortcomings of Western Response Strategies to New Energy Vulnerabilities’, *Energy Exploration & Exploitation*, 23/1 (2003): 36.

16 Juhani Laurila, ‘Transit Transport between the European Union and Russia in Light of Russian Geopolitics and Economics’, *Emerging Markets Finance and Trade*, 39/5 (2003): 29.

17 Alexander Arbatov, Vladimir Feygin and Victor Smirnov, ‘Unrelenting Oil Addiction’, *Russia in Global Affairs*, 3/2 (2005): 147.

Russian Government in 2003.<sup>18</sup> Energy dialogue addresses this issue by promoting Tacis-sponsored pilot projects in Archangelsk, Astrakhan and Kaliningrad.<sup>19</sup>

One may thus argue that the EU has addressed the issue of energy savings in its dealings with Russia (see also below). Even if one may recommend greater effort in this direction, strategically the policy is the right one. There are, however, spheres where one may locate even more crucial problems related to the long-term goals of the energy dialogue and even perhaps to the overall vision of future relations between Russia and the EU. The political implications of the seemingly technical issues of gas prices and pipeline routes are simply too weighty to be ignored. The starting point here is the problem of foreign investment in the energy sector. Both sides seem to agree on the importance of FDI for the development of Russia’s production and export capacity. Russia puts more emphasis on the need for investment as such, while the EU tends to underscore the importance of improving the investment climate. This discrepancy may look a mere question of emphasis, but if one considers the approach of each party more carefully, and in view of the recent political developments in Russia, one may come to the conclusion that the disagreement is more serious than at first appears. In the final analysis, the attitude to foreign investment depends on both parties’ images of each other and of their respective place in the new Europe. At stake is the profoundly political question of where the community of Europe ends.

#### Investment and Interdependence vs. Strategic Control and Geopolitics: the Russian Dilemma

Some authors have argued that ‘[a] long-term steady and growing energy partnership with Europe will give Russia a stake in the EU’s future, provide a means to transform Russia’s economy, and perhaps begin to foster a sense of connection with a steadily expanding definition of Europe, if not one of association with the EU as a security community’.<sup>20</sup> Russia’s Vice-Prime Minister Viktor Khristenko who is also Russia’s chief minister responsible for the energy dialogue, foresees that deeper co-operation with the EU can help Russia to introduce ‘new standards of quality and governance’.<sup>21</sup> Dmitry Danilov maintains that a new strategic vision to the relationship could actualize ‘the potential of Russia’s social and economic development and democratic modernization’.<sup>22</sup> All that can be perfectly true, but

18 ‘Energeticheskaya strategiya Rossii na period to 2020 goda’, utverzhdena rasporyazheniem Pravitel’stva Rossiiskoi Federatsii ot 28 avgusta 2003 g. no. 1234-r’, p. 16ff, <<http://www.mte.gov.ru/files/103/1354.strategy.pdf>>.

19 ‘S pritselom na prochnoe partnerstvo’, *Dialogue*, special issue for the Russia–EU Summit, St. Petersburg, May–June 2003.

20 Amy Myers Jaffe and Robert A. Manning, ‘Russia, Energy and the West’, *Survival*, 43/2 (2001): 146.

21 Viktor Khristenko, ‘Nuzhna li nam integratsiya?’, *Rossia v globalnoi politike*, 2/1 (2004): 78.

22 Danilov, ‘Dorozhnye karty, vedushchie v nikuda’; see also Arbatov et al., ‘Unrelenting Oil Addiction’, pp. 152–155.

the plausibility of these arguments hinges on a number of factors, ranging from pragmatic calculations to identity politics.

The incentives for Russia to accept the *acquis* as the only basis for the development of an integrated energy market and as a condition for its possible rapprochement with the EU eventually depend on the possibility to create a shared identity between Russia and Western Europe. So far, the impression is that both parties see each other as two separate entities that are destined by geopolitics to compete against each other, with this competition at times turning hostile. Unlike in the case of CEE countries which do not see their future outside the European structures, Russia perceives itself as a centre of its own and therefore advances a different agenda. Very much like the EU, Russia as a political project is being increasingly conceived of as an empire with the centre in Moscow and the sphere of influence stretching all over the post-Soviet space.<sup>23</sup> Contrary to the EU's logic of conditionality, Danilov notes, 'Moscow prefers to speak about co-operation on equal terms, about a two-way street'.<sup>24</sup> Being confronted with the tough position of the EU bureaucracy, which refuses to consider any proposal about a 'special relationship' with Russia or any other way of recognizing Russia's role as an independent power in the new Europe, Moscow reacts by using all means – real or imaginary – of insisting on its independent position and influencing the pan-European developments.

The field of energy provides plenty of opportunities for this type of political games. The energy dialogue is unfolding under the conditions of scarcity: energy becomes more and more valuable resource on the global scale. Policy-makers and economic agents all over the world become increasingly aware of the fact that oil and gas are limited and exhaustible resources, which makes competition for them more and more acute. Besides, Russia cannot significantly increase production in the near future because of transportation bottlenecks and the lack of easily accessible new reserves (see Chapters 2 and 8). There are alternative buyers who can, at least potentially, offer significant rewards for redirecting the transport infrastructure away from Western Europe. These rewards go far beyond economic factors such as investment. To start with, the US, in spite of the recent tensions, still largely treats Russia as one of the major partners in the antiterrorist coalition. Japan can potentially offer some concessions for the territorial settlement of the long-standing Russo–Japanese border dispute on the Kurile Islands. China is a key member of the Shanghai Co-operation Organization and part of the grand geopolitical designs cherished by the Russian political elite. Diversification of exports is one of the priorities of Russian external energy policy as defined in the Energy Strategy,<sup>25</sup> and a major step in this direction was made with the signature of the memorandum on the construction of gas pipelines from Russia to China during President Putin's visit

23 For a more thorough discussion of Russia's new imperialism, see Viatcheslav Morozov, 'New Borderlines in a United Europe: Democracy, Imperialism and the Copenhagen Criteria', in *Russia's North West and the European Union: a Playground for Innovations* (Nizhny Novgorod: R-US Expert Transit and Danish Institute for International Studies, 2005), pp. 74–84.

24 Danilov, 'Dorozhnye karty, vedushchie v nikuda'.

25 'Energeticheskaya strategiya', p. 41.

in March 2006.<sup>26</sup> It is obvious that Russia is trying to increase its action capacity in the framework of the energy dialogue with the EU. This, however, involves the need to control the domestic energy sector so that the government can use energy as a foreign policy tool.

It is well known that the Russian Government, at least in the economic field, can hardly be described as a unitary actor with a solid and coherent agenda (cf. Chapter 8). Up until late 2005 the cabinet, as well as some of the key ministries, had been divided into liberals and proponents of economic nationalism, and the whole history of Russian reforms, including the most recent ones, abounded with contradictory steps and declarations. Nevertheless, towards the middle of President Putin's second term in office, it became increasingly evident that the liberal reform projects made no headway, whereas economic nationalist agenda was gaining prominence. Taking stock of the political evolution of the Federal Government in 2005, the leading liberal newspaper concluded that 'bogged down in bureaucratic intrigues and having abandoned their conflicting opinions', liberal cabinet members lost their influence and resigned to a distinctly nationalist turn in economic policy.<sup>27</sup>

It was in the energy sector where this turn actually was initiated. The plans to reform Gazprom in order to introduce competition into the highly monopolized gas market were largely abandoned as early as in 2004. As stated by President Putin in a meeting with German Chancellor Gerhard Schröder, '[w]e intend to preserve state control over the gas pipeline system and we will not divide Gazprom'.<sup>28</sup> Russia–EU agreement on Russia's WTO entry allowed the export monopoly of Gazprom to be preserved, while the only concessions on Russia's part consisted in the pledge to gradually raise internal gas prices and to guarantee trunk pipeline access to all internal producers. In the electricity sector, the discussions on a reform look more up to the point, but they largely remain to be put into practice. In the oil sector, in spite of all remaining uncertainty as to the actual motives and driving forces of the Russian Government's policy, one thing is clear: the state is determined to strengthen its control over strategic energy production and export. This was well attested to in the development of the criminal case against the top management of the oil giant Yukos, including its politically ambitious former leader Mikhail Khodorkovsky, during 2004–5, and in the follow-up to the whole episode thereafter. The 'Yukos affair' resulted not only in Khodorkovsky being sentenced for tax evasion, embezzlement and other crimes, but also in the effective nationalization of the most important part of Yukos, Yuganskneftegaz. At the December 2004 auction it was acquired by the state-controlled oil company Rosneft, thus creating a second energy giant directed from the Kremlin, to complement Gazprom's gas monopoly. This trend continued and spread into other industries, such as engineering (the purchase of Silovye

26 Vladimir Kuzmin, 'God Rossii po kitaiskomu kalendaru', *Rossiiskaya gazeta*, 22 March 2006.

27 Dmitry Butrin, 'Pravitel'stvo natsional'nogo proekta', *Kommersant*, 30 December 2005.

28 Vladimir Putin, 'Vystuplenie na torzhestvennom sobranii, posviashchennom 10-letiu OAO Gazprom', 14 February 2006, <<http://www.kremlin.ru/text/appears/2003/02/29774.shtml>>.

Mashiny by the Unified Energy Systems) and car manufacturing (the takeover of the AvtoVAZ by the Rosoboroneksport defence holding).

As maintained by *Kommersant*, the essence of the government's industrial policy from 2005 on 'consists of the distribution of spheres of business influence between the key formal and informal power structures and of supporting national security by means of squeezing out of the market all "suspect" (from the bureaucrats' viewpoint) investors'.<sup>29</sup> One may argue at length over the economic effectiveness of this approach, as well as over the means used to establish control over the privately owned companies, but it is obvious that increasing state pressure is hardly compatible with the need for new FDI. Even investors who are in principle interested in dividends alone and do not envisage establishing control over companies whose stock they acquire, are probably unlikely to risk their money by investing into a sector heavily controlled by the government, which can in the end force private companies to act against their economic interest.

The state consolidated its grip over the 'strategic resources' in 2006. In October, when the protracted process of selecting a foreign partner for Gazprom to develop the Shtokman gas field in the Barents Sea was nearing its end, the Russian gas monopoly suddenly declared that it would go on with this project on its own, with no international partners involved. The bitter disappointment of the would-be participants – the Norwegian Statoil and Norsk Hydro, the French Total and the US Chevron and ConocoPhillips – was relieved during the following month, when the top Russian officials, including President Putin, explained that foreign partners would be brought in, albeit 'in a different format', with Gazprom as the only licence holder for Shtokman's 3.7 trillion cubic metres of gas (see also Chapter 6).<sup>30</sup> As the Shtokman case unfolded, Sakhalin Energy, a company owned jointly by the Royal Dutch Shell of Britain and the Netherlands, and the Japanese Mitsui and Mitsubishi, was accused by the Russian authorities of violating the environmental norms in developing the major Sakhalin–2 project on the shelf of the Sakhalin Island in the Russian Far East. Characteristically, the crisis was resolved in December 2006 not by an environmental clean-up, but instead by Gazprom buying 50 per cent of shares of the international participants to the Sakhalin–2 project and thus effectively establishing control over its 600 billion tons of oil and 700 billion cubic metres of natural gas.<sup>31</sup> The Russian-British TNK BP was at the same time under similar pressure in relation to its Kovykta oil field in east Siberia, and has repeatedly declared its preparedness to cede control to Gazprom. However, it is the sea shelf oil and gas resources, such as Shtokman or Sakhalin–2, which seem to attract the Federal Government's most attention – to the extent that it has promised to introduce a law banning foreign companies from owning shelf fields, and may also be thinking

29 Renata Yambaeva, 'RAO "Gosprom"', *Kommersant*, 30 December 2005.

30 'Zapad dopustiat k Shtokmanu "na novykh usloviyakh"', BBCRussian.com, 8 December 2006, <[http://news.bbc.co.uk/hi/russian/russia/newsid\\_6162000/6162197.stm](http://news.bbc.co.uk/hi/russian/russia/newsid_6162000/6162197.stm)>.

31 "'Gazprom" kupil kontrol nad "Sakhalinom-2"', BBCRussian.com, 21 December 2006, <[http://news.bbc.co.uk/hi/russian/russia/newsid\\_6201000/6201705.stm#](http://news.bbc.co.uk/hi/russian/russia/newsid_6201000/6201705.stm#)>.

to oust Russian private companies from such projects, thus concentrating all these resources for the state owned Gazprom and Rosneft.<sup>32</sup>

Increasing involvement by the state into the management of the energy sector cannot but reduce Russia's credibility as an energy supplier to the EU. One can, of course, dream up a situation in which the Russian Government will use its leverage over the energy sector in order to induce Russian companies to cater for the urgent needs of their European customers, especially in the case of a major price surge or supply crisis, or both. The former German Chancellor Schröder, for instance, presented his personal relationship with President Putin as a guarantee for the stability of energy supplies (see Chapter 5). The long-term record of stable Soviet and Russian energy supplies to the west European markets used to be a strong argument in favour of the latter point, but the more recent developments make the opposite scenario at least equally plausible.

In the early to mid-1990s, Russia used natural gas supply cuts to Ukraine to advance such demands as Ukraine to cede full control over the Black Sea fleet to Russia or join the customs union with Russia and several other states of the Commonwealth of Independent States (CIS).<sup>33</sup> Even before the 'gas war' of December 2005–January 2006 the danger of such manipulation was recognized both in Brussels and Washington: as Nikolai Zlobin put it, 'the US is not interested in the "energy switch" becoming the key and, most importantly, unpredictable element of Russia's foreign policy toward former Soviet republics and other countries'.<sup>34</sup> Former US ambassador to Lithuania and consultant to the Williams energy company Keith C. Smith went as far as to say that '[t]he US government and the EU should stop and reconsider the costs ... of their rush to secure additional oil and gas supplies from Russia', and 'collaborate ... to counter Russian energy policies that threaten the consolidation of democracy and free markets in Poland, Ukraine, Estonia, Latvia, and Lithuania'.<sup>35</sup>

This energy geopolitics *à la Russe* culminated in the dispute with Ukraine over the price of Russian natural gas at the turn of 2005–6. There are grounds to believe that legally speaking, Gazprom was fully entitled to demand a higher price<sup>36</sup> – at least the fact that Kiev did not bring the case before the Stockholm arbitration court indirectly supports this point. Yet, the reputation of Gazprom as a shady dealer and a political actor in the hands of the Russian Government rather than an independent market-oriented supplier, combined with the extremely poor performance of the Russian diplomacy during the Ukrainian orange revolution a year earlier, as well as

32 'Inostrantsev ne pustiat na Rossiiskii shelf', BBCRussian.com, 25 January 2007, <[http://news.bbc.co.uk/hi/russian/business/newsid\\_6299000/6299677.stm](http://news.bbc.co.uk/hi/russian/business/newsid_6299000/6299677.stm)>.

33 Keith C. Smith, *Russian Energy Politics in the Baltics, Poland, and Ukraine: A New Stealth Imperialism?* (Washington: Center for Strategic and International Studies, 2004), p. 47.

34 Nikolai Zlobin, 'Limited Possibilities and Possible Limitations: Russia and the U.S.: What's Next?', *Russia in Global Affairs*, 3/1 (2005): 219.

35 Smith, *Russian Energy Politics*, pp. 75–76; see also Keith C. Smith, 'Defuse Russia's Energy Weapon', *International Herald Tribune*, 17 January 2006.

36 Nikolai Sokov, 'Alternative Interpretation of the Russian-Ukrainian Gas Crisis', *PONARS Policy Memo*, no. 404, p. 2 <[http://www.csis.org/media/csis/pubs/pm\\_0404.pdf](http://www.csis.org/media/csis/pubs/pm_0404.pdf)>.

the general concern over the fate of Russian political and economic reform, led to a situation where the Ukrainian position was in advance accepted internationally as a legitimate stand-out against what was perceived as Russian imperialist pressure. At the same time, even if one may argue that Kiev won in terms of international public opinion, both countries may be said to have lost in the resulting deal, which created an absolutely non-transparent scheme for gas supplies to Ukraine, with the bulk of the profit going to RosUkrEnergO – a company whose owners prefer to remain unidentified.<sup>37</sup> Thus, while the declared initial objective of both parties was to make their trade in gas more transparent and market-based, the conflict made the situation only worse in those terms (see also Chapter 4).

It seems that during the recent years nearly any crisis in Russia's relations with its neighbours has invariably led to the deployment of the energy weapon, which sometimes also affects EU consumers. The chronic tension between Russia and the Baltic states was a major factor underlying the decision to build the Baltic Oil Pipeline System bypassing the Baltic ports and Finland (see also Chapters 7 and 8). The cost of the first two phases of the project was estimated at 3–5 billion US dollars, whereas a similar extension of transport capacity could have been attained through investing ten times less in the development of the transit route through Ventspils, Latvia. In addition, the latter option could have been supported by the World Bank, the European Bank for Reconstruction and Development (EBRD), and Tacis.<sup>38</sup> Additional evidence in favour of the argument that economic efficiency was in this case sacrificed to geopolitical concerns is that Russia has foregone some of the profits which could have resulted from the high oil prices by never resuming pumping oil to Ventspils, even while the BOPS was unable to transport all the oil available for export.

Moscow's persistence in advancing the Nord Stream gas pipeline project is also to a large extent explained by the desire to decrease Russia's dependence on the transit states (first of all, Ukraine, Belarus and Poland) and thus perhaps to acquire an additional tool for pressing them for geopolitical ends (see also Chapter 5).<sup>39</sup> Moreover, the acute crisis in Russia's relations with Georgia in autumn 2006 resulted in the beginning of the construction of a gas pipeline from Russia to the breakaway Georgian autonomy of South Ossetia, which would, in the words of a Russian official, prevent Georgia in the future from 'cutting off energy supplies vitally important for South Ossetia's inhabitants.'<sup>40</sup> Last but not least, the dispute with Belarus over energy prices, transit tariffs and – in the background – the future of the union between the two countries resulted in a temporary interruption of oil supplies through Belarus to Western Europe in the beginning of 2007. This development caused a bitter reaction

37 Even President Putin declares that he does not know who stands behind this company: Vladimir Putin, 'Interview to the Spanish Media', 7 February 2006, <[http://president.kremlin.ru/eng/text/speeches/2006/02/07/2343\\_type82916\\_101277.shtml](http://president.kremlin.ru/eng/text/speeches/2006/02/07/2343_type82916_101277.shtml)>.

38 Laurila, p. 46, 53.

39 Smith, *Russian Energy Politics*, pp. 17–18, 45–46.

40 'Nachalos stroitel'stvo gazoprovoda v Yuzhnuyu Osetiyu', *Vzgliad*, 27 October 2006, <<http://www.vz.ru/news/2006/10/27/54556.html>>.

on the part of EU member states and provided Brussels with yet another argument in favour of an energy policy reform.<sup>41</sup>

The developments of the recent years, in particular since the Russo–Ukrainian 'gas war' demonstrate that Russia's monopolization of the energy sector is a source of anxiety for Russia's neighbours in light of the linkage between democracy and security that is so firmly established in western discourse: undemocratic states are expected to threaten global security and stability. Democracy, in turn, can fall victim of economic monopolization. The takeover of Vladimir Gusinsky's Media-Most holding by Gazprom in 2002 sets a very disturbing precedent of using resources accumulated in the energy sector to establish state control over independent media. But after all, one does not even have to prove that Russia is likely to use the monopolized energy sector to press its neighbours. Given the burden of history in mutual relations and the lack of transparency in corporate management, it is clear that a mere awareness of monopolization provides an additional argument against Russian transit and investment in the transport infrastructure of the CEE countries. This argument also seems to have currency far beyond the area.<sup>42</sup>

Even if this analysis provides ample evidence against 'putting all eggs into the Russian basket', it would, however, be equally unwise to put all the blame on the Russians. Rather, this analysis supports the argument that the seemingly technical issues within the energy dialogue are firmly embedded into a wider problematic of Russia–EU relations and relate to the fundamental question of belonging and exclusion. Accordingly, before one can raise the question of responsibility, one first has to discuss the alternatives available to each party.

It seems that in the case of Russia, a country rich in energy but squeezed between its imperial past and the lack of political and institutional resources for jumping right into the brilliant future, the alternatives are few, if any. By insisting on the principle of conditionality, the EU is leaving Russia with little choice – either it has to give up its self-image of an independent sovereign power and to integrate into the single market, with no chance whatsoever to have a say over the way the latter is regulated – or it has to consolidate political control over its energy sector and try to use it with a view of at least partially regaining its position as a great power. It is hardly surprising that Russian policy-makers choose the latter option. One may call their logic flawed, but it is probably no more flawed than that of the EU bureaucracy, which unwittingly relies upon the most simplistic version of the modernization theory, being unable to fully grasp how crucial Russia's self-understanding as a strong sovereign nation is for itself. This self-understanding is by no means limited to the 'purely' political matters: President Putin's statement in the December 2005 Security Council meeting that Russia should become a leader of the world's energy market,<sup>43</sup> and Russia's

41 See e.g. Aambrose Evans-Pritchard, 'Brussels Uses Energy Row to Push Tireless Federalist Agenda', *The Daily Telegraph*, 12 January 2007.

42 The most comprehensive assertion of this argument can be found in Smith, *Russian Energy Politics*.

43 Vladimir Putin, 'Opening Address at the Security Council Session on Russia's Role in Guaranteeing International Energy Security', 22 December 2005, <[http://president.kremlin.ru/eng/speeches/2005/12/22/2222\\_type84779\\_99439.shtml](http://president.kremlin.ru/eng/speeches/2005/12/22/2222_type84779_99439.shtml)>.

setting of energy security as the main theme of its G8 presidency<sup>44</sup> illustrate the key significance of energy for Russia's new identity. Secondly, and most importantly, any discursive transformation which could make the Russians more receptive to the appeal of the European integration project would require some sort of a reciprocal move on the part of west Europeans. As always, it takes two to tango.<sup>45</sup>

### Costs and Limits of the Russian Strategy: the Energy Dialogue and the Future of Europe

At the same time as the Russian party is attempting to establish strategic control over its energy resources against the preferences of the EU, it is remarkable that the energy dialogue, unlike many other joint projects between Russia and the European Union, continues to function and even reportedly brings some concrete results. There is, however, a cost – at least for the EU. There are some crucial elements in the initial design of the dialogue that are almost completely missing in the current process.

As pointed out above, some progress has been achieved on energy saving projects, but one can hardly expect the pilot projects to become widespread practice without making this an issue in the public debate. The simple reason is that energy saving is as much a cultural as a technological issue. At the moment, the matter does not get any publicity in Russia, while both the Russian Government and the EU appear to ignore this aspect of the problem. Liberalization and legal approximation with the EU, another key element of the energy dialogue as it was initially planned, are certainly not in the interest of Russian monopolies, and it is therefore understandable why Moscow is trying to avoid a pointed dialogue with the EU on these issues. What is not as obvious is whether, in the long run, this strategy will benefit the Russian economy and the people of Russia. Ignoring the broader political dimension of such 'technical' and 'purely economic' issues in the framework of the energy dialogue is in itself a political decision which has serious consequences for the future of Russia and Europe as a whole. In general, what seems to be almost completely disregarded in the process is the possibility to use the energy dialogue as a means of promoting further reform in Russia and in this way bringing it closer to the EU. What is in question here is not the presumed need for Russia to adopt certain practices whose legitimacy is defined in Brussels, in order to 'integrate' into the EU–Europe (later

44 See in particular Putin's article published widely in the world media: Vladimir Putin, 'The Upcoming G8 Summit in St. Petersburg: Challenges, Opportunities, and Responsibility', 1 March 2006, <[http://president.kremlin.ru/eng/speeches/2006/03/01/1152\\_type82914\\_102507.shtml](http://president.kremlin.ru/eng/speeches/2006/03/01/1152_type82914_102507.shtml)>. The expert opinion about this decision has been for the most part negative – see e.g. Pavel K. Baev, 'Chairing the G8. Russian Energy and Great Power Aspirations', *PONARS Policy Memo*, no. 382 (2005), <[http://www.csis.org/media/csis/pubs/pm\\_0382.pdf](http://www.csis.org/media/csis/pubs/pm_0382.pdf)>; Vladislav Inozemtsev, 'Ne vpolne udachnyi vybor', *Nezavisimaya gazeta*, 25 January 2006; Leonard L. Coburn, 'God energeticheskoi nebezopasnosti', *Kommersant*, 24 March 2006.

45 Cf. Pami Aalto, 'EU, Russia and the Problem of Community', in Hartmut Mayer and Henri Vogt (eds), *A Responsible Europe? Ethical Foundations of EU External Affairs* (Basingstoke: Palgrave, 2006).

rather than sooner), but the lost opportunities for Russia's own economic and political development, for which co-operation with the EU can be a resource.

However hard the Russian Government tries to increase its action capacity in the field of the energy dialogue, this space will in the future remain necessarily limited for various structural reasons. One can hardly escape the fact that the EU is by far Russia's main trading partner, with more than half of the Russian exports going to the single European market. It is true that the lion's share of these exports consists of raw materials, including energy, for which Western Europe so far has no substitutes. But this huge share nevertheless provides Brussels with a chance to counter any unfriendly measure which might hypothetically be taken by Moscow in the energy field. Furthermore, Russia's position as the most important supplier of energy to EU member states and other countries of the region cannot be taken for granted in the longer run, since there are alternative producers eager to access the European markets.

For example, regardless of Russia's determined efforts to obstruct the realization of the Baku–Tbilisi–Ceyhan oil pipeline project from Azerbaijan to Turkey, the project was successfully completed by mid-2006, and even expanded to include Kazakhstan.<sup>46</sup> Armenia, frustrated by the price hike for Russian natural gas at the beginning of 2006, decided to speed up the construction of a gas pipeline from Iran. Even though Russia offered to compensate Armenia for expensive gas by supplying it with cheap weapons,<sup>47</sup> it is likely that Iranian suppliers will soon compete with Gazprom in this market. Competition may also come from quite unexpected directions. Every fourth new barrel of oil in the coming years will be produced in West Africa, where established players on the global energy markets (like Nigeria) and newcomers (Chad, Mauritania) alike are investing in infrastructure in order to increase their oil exports to Western Europe, East Asia and the US.<sup>48</sup> In spite of the fact that many countries of that region are often associated with political instability, taken as a whole, these oil supply routes can provide some extra leeway for European buyers.

The impact of the Russian–Ukrainian gas crisis on the EU's energy policies is also clearly visible at this plane. On surface, Brussels has accepted the Russian proposals about energy security as a new conceptual framework which has supplemented, and sometimes even replaced, the traditional EU emphasis of energy efficiency – a

46 See Radio Free Europe/Radio Liberty Newline, part I, vol. 9, no. 147, 5 August 2005, and no. 127, 14 July 2006.

47 Ara Tatevosian and Aleksandr Reutov, 'Armeniu ubedili oruzhiem', *Kommersant*, 24 March 2006.

48 Anthony H. Cordesman and Khalid R. Al-Rodhan, *The Changing Risks in Global Oil Supply and Demand: Crisis or Evolving Solutions?* (Washington: Centre for Strategic and International Studies, 2005), p. 55, <[http://www.csis.org/media/csis/pubs/050930\\_globaloilrisks.pdf](http://www.csis.org/media/csis/pubs/050930_globaloilrisks.pdf)>. One of the projects currently contemplated by the investors is the Trans-Saharan pipeline, which, even being a fairly long time off, may pose a huge challenge to the Russian energy exporters. For more information on alternative sources of energy supplies to Europe, see Ostap Karmodi, 'Ne truboi edinoi', *Moskovskie novosti*, 13 January 2006; Mikhail Zygar', Igor Fediukin and Natalia Grib, 'Kak Evropa budet spasat'sia ot Rossii', *Kommersant-Vlast*, 16 January 2006.

term which obviously has much less direct political currency. However, contrary to Moscow's expectations, Russia more often figures as a source of insecurity than as a provider of stability on the energy market. As *Kommersant-Vlast* put it in 2006, '[w]hile up until now Vladimir Putin has offered to ensure energy security of Europe with the help of Russia, as of the beginning of the New Year the Europeans are desperately trying to secure themselves from Russia'.<sup>49</sup> In its March 2006 Green Paper, the European Commission explicitly sets the task of establishing the EU as an international actor in the energy field. The paper advocates 'a coherent external energy policy' aimed at securing 'independent gas pipeline supplies from the Caspian region, North Africa and the Middle East into the heart of the EU', as well as creating new liquefied natural gas terminals and 'Central European oil pipelines aiming at facilitating Caspian oil supplies to the EU through Ukraine, Romania and Bulgaria'. The outline of external energy policy towards Russia includes such keywords as 'predictability', 'third party access to pipelines', 'rapid ratification by Russia of the Energy Charter Treaty and conclusion of the negotiations on the Transit Protocol' (!).<sup>50</sup> A key outcome of Moscow's attempts to use energy as a policy tool thus is the bolstering of the EU as an energy policy actor,<sup>51</sup> with the aim of countering Russia's monopolistic measures and promoting the diversification of supplies.

Another future-related limitation for Russia's energy-based geopolitics is less visible but more radical: oil and gas stocks will sooner or later come to an end, while the high price of hydrocarbons stimulates the development of new technologies which will sooner or later provide an economically sustainable alternative to fossil fuels. Besides, nuclear energy is being rehabilitated after decades of the 'Chernobyl syndrome'. Finland launched its fifth reactor in 2005; Germany is considering a reversal of the decision to close down its nuclear power plants, and a similar mood is spreading throughout Europe,<sup>52</sup> including Russia itself.<sup>53</sup> Thus, precious time is wasted. Instead of using the EU as a possible source of new technologies, Russia is overexploiting its antiquated energy sector to increase its geopolitical profile.

Apart from the future perspectives, most frustrating are the wider political implications of the current modality of the overall relations between Russia and

49 Zygar' et al., 'Kak Evropa budet spasat'sia ot Rossii'.

50 European Commission, 'A European Strategy for Sustainable, Competitive and Secure Energy', Green Paper, COM(2006) 105 final, 8 March 2006, p. 15. Later on, the EU suggested it could lift the demand for Moscow to ratify the ECT if its principles, as well as those of the Transit Protocol, are integrated into the new comprehensive agreement between the EU and Russia; European Commission, 'An Energy Policy for Europe', Communication from the Commission to the European Council and the European Parliament, COM(2007) 1 final, 10 January 2007, p. 24.

51 Cf. Tatiana Romanova, *Stanovlenie Evropeiskogo soyuza kak mezhdunarodnogo aktora. Na primere investitsionnoi deyatel'nosti v energeticheskom sotrudnichestve s Rossiei 1994–2001gg* (Sankt-Peterburg: Izdatel'stvo Sankt-Peterburgskogo universiteta, 2003).

52 Karmodi, 'Ne truboi edinoi'.

53 President Putin has set the target of increasing the share of nuclear energy in Russia's energy balance 'at least 20 percent during the initial phase': Vladimir Putin, 'Speech at Meeting with the G8 Energy Ministers', 16 March 2006, <[http://president.kremlin.ru/eng/speeches/2006/03/16/1302\\_type82912type82914\\_103208.shtml](http://president.kremlin.ru/eng/speeches/2006/03/16/1302_type82912type82914_103208.shtml)>.

the EU. They do not perhaps originate in the energy dialogue, but have a direct relevance for the prospects of energy partnership between the two parties. The logic of interdependence which at the turn of the century might have seemed the only possible way of conceptualizing the relations between Moscow and Brussels in the energy sector, does not really work because of the intrusion of profoundly political questions of political boundaries between the self and other.

Mutual othering between the EU and Russia is a constitutive phenomenon, leading to a situation where the identity of each party becomes crucially dependent on the image of the other as a geopolitical competitor, and potentially an adversary. The positive image of the EU, so common for the Russian discourse of the mid-1990s, is melting into the undifferentiated figure of the west as the eternal antagonist. Conversely, the current pan-European discourse (as well as the western one, generally speaking), is recreating the Cold War descriptions of Russia as an inherently authoritarian state looming large in the backyard of Europe as a relic of its undemocratic and militaristic past. Instead of a 'Europe whole and free' we end up in a situation where Europe is split into two, very much like in the era of the iron curtain. Intensification of the political antagonism leads to a total mobilization of all available resources, and in this scenario energy inevitably ceases to be a field where the logic of mutual compatibility dominates. Indeed, given the significance of energy for Russia's economy and its role in global affairs, this policy sector becomes increasingly politicized and even securitized. Hence, after the events of late 2005–early 2006 energy has once and for all established itself as one of the key themes of Europe's political narratives, where pragmatic logic of economic co-operation no longer applies adequately.

Some authors have suggested that the way out of this dead end must be sought along the lines of the neomedieval model, which envisages a Europe of better empowered regions, multiple identities coexisting rather than engaging in mutual exclusion, and of overlapping political spaces.<sup>54</sup> It is, however, very obvious at this stage that the Northern Dimension, which is usually cited as an example of this approach, has been marginalized in the debate about the future of Europe, and for the most part absorbed by the imperial discourse. The economic potential of the ND is quite substantial, but, as in many other energy-related fields, it is heavily dependent on mutual understanding in the political domain.<sup>55</sup> As already mentioned, the EU bureaucracy has tried to develop the ENP as a solution to the internal/external security paradox, but failed to come up with anything really innovative in comparison to the old logic of conditionality based on the premises of modernization theory. Once again, this is not to argue that modernization theory is entirely wrong, but rather to emphasize how the policy of imposing one particular version of modernity with little sensitivity to local concerns has its limits. It simply does not work in the case of Russia, whose self-image is based on a very firmly established narrative of a sovereign, and in many respects self-sufficient, European great power.

54 Joenniemi and Browning, 'Discourses on Centrality and Marginality'.

55 Tero Lausala, 'The Role of Energy in the Northern Dimension', in Lassi Heiminin (ed.), *Northern Borders and Security – Dimensions for Regional Cooperation and Interdependence* (Turku: Turku School of Economics and Business Administration, 2002), esp. p. 207.

The Russian decision-makers, too, remain locked in the Westphalian understanding of Europe and unable to grasp the opportunities afforded by the fundamental transformation of European political landscape after the end of the Cold War. Even when the important advantages of deeper co-operation with the EU in all fields including energy are recognized, all too often they are interpreted in accordance with the zero-sum game logic, which makes any ‘concession’ look as a net damage to Russia’s national security. Another effect of the Westphalian approach to Europe is that Russian policy-makers and diplomats prefer to deal bilaterally with the European ‘great powers’ (Germany, France, Britain) and the EU as a whole, while the northern ‘periphery’ attracts very little attention. This is obviously one of the reasons why Russia has never been really willing to engage with the ND initiative.<sup>56</sup> An additional explanation here, and in the field of the energy dialogue more specifically, is that the Russian political system remains tuned to maximizing short-term outcomes, while the long-term goals, be it the search for new technologies or doing away with the legacy of Cold War, remain beyond the horizon.

What follows from this analysis is that it is up to the peripheries themselves to mobilize and create alliances in favour of a less centralized and more open Europe. Pertti Joenniemi and Christopher S. Browning argue that Finland should be particularly interested in continuing to support the ND which it helped to create, whilst concomitantly supporting similar approaches to regional co-operation in the European north.<sup>57</sup> Finland has, indeed, been especially keen on promoting cross-border co-operation with Russia, including in the area of the environment, whereas in the energy sector the record is more mixed (see Chapter 6).

There are also some hopes that the regions of Russia’s northwest, in particular St. Petersburg, might possess the resources necessary for challenging the monopoly of the federal centre without necessarily questioning the territorial integrity of Russia.<sup>58</sup> Due to their geographical location, the northwestern territories not only serve as an interface between Russia and the EU, but also engage in various kinds of networking with their EU neighbours, such as the Euroregions, the Baltic Sea States Subregional Co-operation, and the Union of Baltic Cities. Various historical narratives – such as the story of Hansa or of St. Petersburg as a ‘window to Europe’ are employed in order to create a shared regional identity. History, however, does not always play a ‘positive’ role: on the contrary, conflicting interpretations of the past are a source of continuous tension between Russia and the Baltic States and, to some extent, also Finland. This tension constitutes an important part of national identity construction. But at the same time, by hampering cross-border interaction, the same tension creates tangible problems for the people in the peripheral areas.

56 Joenniemi and Browning, ‘Discourses on Centrality and Marginality’.

57 Ibid.

58 Pertti Joenniemi (ed.), *Saint-Petersburg – Russian, European and Beyond* (St. Petersburg: St. Petersburg State University Press, 2001); Viatcheslav Morozov, ‘The Discourses of St. Petersburg and the Shaping of a Wider Europe: Territory, Space and Post-Sovereign Politics’, *COPRI Working Papers* 13/2002; Anaïs Marin, ‘Integration without Joining? Neighbourhood Relations at the Finnish–Russian Border’, *DIIS Working Paper* 14/2006, EUBorderConf series <<http://www.diis.dk/graphics/Publications/WP2006/WP2006-14.pdf>>.

The discrepancy between national and local politics creates potential for political mobilization in the peripheries.

This argument is fully relevant in the context of the energy dialogue, as the Baltic Sea region is a major outlet for Russia’s energy exports to the EU, as well as the site of multiple controversies around the distribution of export flows and their safety. Russia is refusing to use Latvian ports for oil shipments citing violations of the rights of the Russian speakers as the reason. Finland is worried about the environmental impact of the intensifying tanker traffic in the Gulf of Finland. Estonia is refusing to buy Russian oil shale to its electricity generation plants because of the Kyoto obligations. This in turn threatens to plunge some of the neighbouring districts of the Leningrad oblast into depression. The Nord Stream pipeline under the Baltic Sea also has clear political implications. These are only the most visible issues where ‘politics’ intervenes with ‘economics’ in northern Europe (see also Chapters 5–8).

The existing conflict potential can and must be considered as constraining in some respects, but empowering in others, because the multiplicity of conflicts with their manifold dimensions – local, regional, pan-European – opens up numerous possibilities for creating new alliances on the basis of new identities. Centralization of the Russian political system under President Putin might have deprived the regional authorities of real political sway, but the ‘vertical of power’ can hardly be expected to address all the local issues, especially those which may be insignificant for the centre but greatly influence the life chances of the local population. Yet this strategy for empowering the local actors, again, requires going far beyond the narrow field of energy into a much wider political landscape.