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ENERGY SECURITY MEANS SOMETHING ELSE IN RUSSIA;
RUSSIA WANTS TO BE ABLE TO INVEST IN THE FACILITIES OF EUROPE AND THE US

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Russia, as chairman of the G8, is making energy security the theme of the summit meeting that will be held in St Petersburg in July, but it became very clear, at the finance ministers' meeting last weekend preparing for the summit, that Russia has its own take on what energy security means and that this does not correspond with the other members of the Group of Eight.

Russia wants to achieve security of demand. The others in the group want security of supply. Russia wants to be able to invest in the energy facilities of Europe and the US to help ensure security of demand. Europe and the US want to be able to take a stake in Gazprom, the Russian natural gas giant, as a way of ensuring security of supply.

The fears about Russia are threefold.

Is Russia a dependable supplier? Or will it use its gas and other energy supplies as a political tool?

Will Russia develop its east Siberian fields so that it can keep up its supplies?

Are there dangers for Europe in becoming too dependent on Russian gas supplies?

The experience this year of Russia reducing its supplies to the Ukraine and coincidentally affecting Europe lies behind much of the concern about Russia using its energy reserves for political ends.

Ostensibly that row was about price and when the price row was not resolved Russia reduced the flow of gas to the pipeline that passed through Ukraine but the Ukraine continued to draw off supplies and this reduced the flow to Europe.

This may be the full and final explanation. The German Finance Minister, Peer Sternbruck, said, for instance, that Russia had been misunderstood over the Ukraine incident.

Nevertheless, the suspicion has lingered that Russia was "punishing" Ukraine, once part of the Soviet Union, for leaning more toward Europe than toward Moscow. European observers of Russian trade policy have reported that Russia uses trade for political ends.

The US has aired views that Gazprom is run by a clique that helps keep President Putin in power.

Whether Russia is being suspected without justification or not, there is a remarkable contrast between the way Russia is regarded and the way Norway is regarded. Russia supplies about a quarter of the EU's gas needs; Norway supplies about 16% but is a trusted supplier. Although by its own choice not a member of the EU, Norway is a member of the North Atlantic Treaty Organisation and has intimate links with EU countries.

The problem over development of the east Siberian fields is that calculations have been made of Russia's supplies and to keep up the amount it is consuming and exporting, there will have to be a development of other fields, which is not being done as rapidly as gas experts believe is necessary.

Russia does not appear to be using its revenues from the sales of energy to develop those fields. Some observers also argue that Russia needs Western expertise to develop the reserves in eastern Siberia but has shown no inclination to involve that expertise.

One of the moves to counter Europe becoming too dependent on Russian gas supplies has been the proposal to develop reserves of gas in Azerbaijan, Turkmenistan and Kazakhstan and to pipe the gas through Turkey, not through Russia. This move is being opposed by Russia which is holding up exploration and development in the Caspian Sea.

The politics of energy supply includes the politics of where pipelines go. Poland, for instance, is annoyed because Russia is building a pipeline under the Baltic Sea to supply Germany without the pipeline going through Poland.

Conservation and developing alternative energy are also ways of lessening dependence on Russian gas supplies. Energy from biomass accounts for two-thirds of the renewable energy produced within the EU. The European Environment Agency has, however, just released a report which warns that too great a reliance on biomass production would have a harmful effect on the environment.

Sweden, an EU member, has recently said it wants to become an oil-free country by 2020 though experts are saying that this goal is unrealistic, and the most that could be achieved would be to produce enough energy from ethanol and biofuel for heating. It would be impossible to do so for transport, which is a much bigger user of energy.

Russia has long backed Gazprom's demand that it should be allowed to invest in downstream facilities in Europe. More recently both its demands and those of Lukoil, the Russian oil company, have grown bigger. Lukoil already has invested in some American filling stations.

Although the requests have not been completely specific the Russians appear to be showing interest in investing in some major facilities on the east coast of the US. Gazprom has also expressed an interest in buying Centrica, Britain's largest gas distributor.

Some Americans fear that purchases in the US will stir up passions as happened when Dubai sought a major controlling interest in ports and when the Chinese wanted to buy Unacol, a Californian oil company. The public outcry caused both deals to fall through, somewhat to the embarrassment of the Administration.

The most likely outcome is that various western countries and Japan will co-ordinate their policies and make a bargain with Russia that they will allow Russian investment if western countries are allowed to invest in Gazprom and other suppliers of energy. The bargaining will undoubtedly be tough. Russia is rediscovering national pride and self-assurance, partly through its position as a major supplier of energy and it will not give up its hold on such strength as it has easily.

Yet it wants the European market because it is wealthy and dependable. It also wants to ensure that its chairmanship of the G8 is a success, partly so it can defeat the views of those who say that Russia should not be a member of the G8.

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