Energy and Security in the Baltic Sea Region
Research Papers in International Relations

Thomas Jonter and Ilja Viktorov (editors)
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This volume is a result of the joint workshop organized by the Department of Economic History at Stockholm University and the Department of Global Politics at St Petersburg State University in May 2009. Energy and security issues have played an important role in the post-Cold war international relations system. This is especially the case in the Baltic Sea region. The growing role of Russia as a supplier of energy resources to the European Union has created additional opportunities for cooperation between Sweden and the Russian Federation but has simultaneously raised some concerns about energy security in Sweden. The development of nuclear energy is another aspect of energy security issues in both countries. The rising environmental challenges regarding transportation of oil and gas through the Baltic Sea should not be neglected either. These issues constituted the starting points for discussions during the workshop that finally resulted in this edited volume.

Irina Zeleneva puts the Russian energy strategy into the historical perspective and investigates it from the point of geopolitics. She contrasts the geostrategy of the Russian authorities against the policies pursued by the Western governments. The paper by Oksana Grigoryeva evaluates historical and theoretical aspects of energy diplomacy and applies it to the Baltic Sea region. She concludes that every country in the region has its own energy diplomacy to secure its economy and policy independence from other countries. Nikolay Dobronravin argues that oil and gas transit projects from Central Asia to Europe with Russian participation are directly connected to ecological vulnerability of the Baltic Sea. Nevertheless, such projects are of some advantage to the Baltic Sea region as they increases the region’s role in the Eurasian international arena.

Two papers are devoted to some key aspects of regional cooperation. Tiziana Melchiorre compares attempts to create some forms of regional identity in the Baltic Sea area with the Black sea regions and the Balkans. She points out that regional geopolitics, establishment of regional institutions and influence of external actors have a
huge impact on cooperation in the three areas. Nataliya Markushina puts forward the Northern Dimension programme as a concrete example of regional cooperation between Russian and the EU and shows how both partners often have different positions, not least in the energy sphere.

Maria Lagutina writes about the Nord Stream pipeline and discusses the possible prospects of the Russian-Swedish cooperation in energy sphere related to this project. She points out the difference in views on energy security in EU and Russia and demonstrates the general Russian attitude to the energy security problem and the Nord Stream project.

Johnny Rodin takes a closer look at Russian oil exports in the Baltic Sea and puts it into the context of the Russian domestic politics as well as international relations. He demonstrates that oil sectors are characterised by a profound multiplicity at both the domestic and international arena. This complexity is expressed in both in terms of the number of actors involved and in terms of diversity of interests.

Thomas Jonter’s main claim is that the Baltic Sea region currently experiencing a nuclear renaissance. However, he argues that even if nuclear power may be a preferred source of energy in comparison among other alternatives, this option can still be problematic since an upgraded role of nuclear power means more trade with nuclear material and more facilities to protect from terrorist attacks and sabotage. The states around the Baltic Sea Region have to strengthen collaboration in order to improve the nuclear security of nuclear material and nuclear technology if nuclear power should be allowed to play a more important role.

Stanislav Shmelev applies multidimensional analysis to Russia’s recent development from the point of sustainability. His paper shows the potential of employment of multi-criteria methods for the sustainability assessment at the macro level and offers insights into multidimensional nature of sustainability and the role of priority setting in the evaluation process. This paper is one of the first attempts to apply multicriteria methods to the macro sustainability analysis in the dynamic setting.

The paper of Irina Shmeleva and Nataliya Butkute focus on ecological risk coming from development of oil industry in four countries in the Baltic Sea region, Latvia, Lithuania, Poland and Russia. Shmeleva and Butkute demonstrate this by discussing the situation around Kravtsovskoe oilfield and use both Russian and Lithuanian sources.
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After the collapse of the Soviet Union in 1991, new international boundaries previously ignored by the centralized planning authorities in Moscow suddenly became conspicuous. The earlier “All-Union” single transport network gave way to 15 semi-isolated “network rags”.

New independent states including the Russian Federation tried to compensate for the breakdown of the infrastructure, delivering their oil and gas to anyone who would pay in US dollars or any other convertible currency. States lying along the oil and gas transit routes from producer to consumer counties (Ukraine, Belarus, and to a certain extent Russia) also had similar objectives when they demanded substantial transit fees from their neighbours.

New transit routes were sought after by oil and gas producers, and their construction began with increasing support from the European Union and the USA for both economic and strategic reasons.1 “Pipeline diplomacy” flourished in the 1990s, especially in the 2000s.2 International actors and the post-Soviet states began to wield political influence in lobbying for various transit routes, and new international programmes for development of transport networks were elaborated.3

As if following the long-forgotten patterns of the nineteenth century, the expectations of players in this renewed “Great Game” were undoubtedly excessive. As Charles E. Ziegler wrote, “the costs of extraction and transportation of oil are considerably higher for Cen-
tral Asia than for the Middle East. More importantly, Russia and the Caspian states combined account for less than 8 per cent of the world's reserves, compared with the Middle East's two-thirds. Russia and Central Asia do have a key advantage, natural gas, though, since their reserves, at 31% of the global total, far exceed those of the Persian Gulf states” (Ziegler 2006: 232). Despite the number of international projects, agreements and statements on radical changes in the transit schemes, networks inherited from the Soviet Union were still in use irrespective of the underdeveloped old transport infrastructure.¹

Until recently, the Central Asian oil and gas producers had to deal with Russia and Kazakhstan as transit countries – as in the case of Uzbekistan and Turkmenistan. As early as 1993, the President of Uzbekistan, Islam Karimov, explained the link between transport problems, relationships with Russia and independence in the following terms:

I always say: communications are Uzbekistan's weakest point. As for now we only have an outlet to the North. God forbid if anyone would block this road! Who will we share our concerns with then?... We talked about the Northern gates of our republic. We should also open gates like this to the South. Through Afghanistan we should reach Pakistan, and further to the Indian Ocean. Through Iran we should establish routes to Turkey, to the Persian Gulf. Through China we must establish ties with the Far East. Only with communications of this level will we be able to consider ourselves independent from the economic standpoint... We need Russia like water and air. We need its possibilities and ties…” (Karimov 1993).

From the market perspective, the oil and gas reserves of Central Asia are situated too far from the most profitable traditional clients, i.e. consumers in the European Union.² The difficulties of transporting oil from the Caspian region (Baku and other fields in today’s Azerbaijan, Turkmenistan and Kazakhstan) were already noted in the nineteenth century by Pyotr Chikhachev, a famous Paris-based Russian/French geographer who stressed the “isolation of Baku from European markets”. According to Chikhachev, “after the building of the Baku-Batum railway, the Caspian oil has two sea routes for distribu-

¹ In an apologetic book on modern Kazakhstan, Roj Medvedev wrote: “The republic does not have enough railways, and especially highways. It is considered that up to 50% of pipelines in Kazakhstan require replacement”. See Medvedev (2007: 81).
² On the peripheral nature of Central Asia since the fifteenth century AD, see Djalili & Kellner (2006: 31–32).
tion across Europe – through Constantinople, and also through St. Petersburg and the cities of the Baltic governorates.” (Chikhachev 1982: 205-206).

One and a half centuries since this assessment was made, the political and economic developments in Europe and Asia have considerably changed. International boundaries, names of cities and countries have also changed more than once. Nevertheless, oil and gas shipments from the Caspian region are still mostly Europe-bound, and they are usually delivered either through Georgia (the Western or South-Western direction, with Turkey participating as a transit country) or through Russia with a growing role of the Baltic region (the Northern route, also with a transit outlet to Turkey).

Since the 1990s, the Central Asian countries have made efforts to diversify oil and gas exports to East Asia. The major East Asian consumers of oil and gas are located in the Eastern provinces of China that are too far from Central Asia. As Michael Klare puts it, —Aside from the various geographical impediments to this project - much of the terrain along this route is harsh and mountainous - the proposed pipeline would pass through several areas of instability, including China’s remote Xinjiang province” (Klare 2002: 104). Even when choosing East Asia and bypassing Russia, both Uzbekistan and Turkmenistan still depend on Kazakhstan, strengthening this country’s political ambitions as a major transit hub.

From a geographical point of view, the shortest route from Central Asia to the Indian Ocean and then to the regular sea routes lies in the Southern direction through Iran or Afghanistan. The southern route has been supported by Iran, particularly through the Economic Cooperation Organization in which all the countries of Central Asia, Azerbaijan, Iran, Turkey and Pakistan are members (see, for example, Directorate of Transport and Communications 2009). However, even with support from Pakistan and India (see Khan 2009 and Joshi 2007: 196-197) the future of this export route is less promising under current security circumstances.

Development of the oil and gas producing countries in Central Asia depends on political decisions taken by the governments of transit states. According to the World Bank, the list of these “gateway countries” includes Russia (for Kazakhstan), Russia, Kazakhstan, Uzbekistan and Iran (for Turkmenistan), or Russia and Kazakhstan (for Uzbekistan) (World Bank, Trade Logistics Group 2009).

Among the oil and gas producing countries of Central Asia, Kazakhstan resembles Russia in many ways. The two countries are geo-
graphically located in both Europe and Asia. Like Russia, Kazakhstan is a major producer of oil and gas; it currently holds second position for oil production among post-Soviet countries (after Russia). The Russian-Kazakhstan border is the longest in the world, and estimates of its length differ by over 1,000 km (Golunov 2005).

Owing to its geographical position, Kazakhstan may export oil and gas without intermediaries to Russia, China and Iran (across the Caspian Sea). However, the most profitable Western route requires cooperation with Russia and other transit states. Kazakhstan itself is a transit country for Turkmenistan and Uzbekistan and, to a lesser degree, Russia.

The production of oil in Western Kazakhstan has been carried out since the early twentieth century when the first pipeline was built. In the late 1970s and early 1980s, the important pipeline Pavlodar-Chimkent (Shymkent) was built as a part of the Omsk-Pavlodar-Shymkent-Charzhou pipeline system, which aimed to deliver Western Siberian oil to processing enterprises in Kazakhstan, Uzbekistan and Turkmenistan (Smankulov 2003: 8-10).

The pipeline transportation system of independent Kazakhstan remained closely linked with the Russian oil pipelines. Oil was delivered from the fields in Western Kazakhstan by pipeline for further processing in Russia. Western Siberian oil was transported for processing in Kazakhstan, and in exchange oil was delivered to Russia via the Atyrau-Samara pipeline. Only a fraction of the Kazakhstan oil exports bypassed Russia through the Caspian port of Aktau. Gas to the Southern regions of Kazakhstan was delivered from Uzbekistan, and from Western Kazakhstan it was supplied to Russia.

According to some assessments, “oil barons of Kazakhstan were able to bribe Russia, which even to the detriment of national companies increased the quota by almost three times for the flow of oil export from Kazakhstan through its pipelines” (Mendybaev & Sheligunov 2001: 44).

In 2005, the transportation of oil started via the Atasu-Alashankou pipeline that connected Kazakhstan fields with Xinjiang in China. The opening of this pipeline also implies that Kazakhstan can now serve as a transit country for deliveries of Western Siberian oil from Russia to China. As the Russian diplomat Dina Gilmudtinova notes; “For Kazakhstan, the development of the pipeline route to China is a geo-strategic task and is connected with its plans for independent export of raw materials without participation of transit countries” (Gilmudtinova 2007: 93).
Kazakhstan also joined the “Baku-Tbilisi-Ceyhan” pipeline system and supported the Nabucco project. However, the Kazakhstan leadership did not intend to abandon completely the Russian route for transporting oil and gas to Europe. In 2001, Kazakhstan oil began to flow through Russia via the Caspian Pipeline Consortium (CPC) pipeline. In 2002, an agreement was signed on oil transit from Kazakhstan to the Russian port of Primorsk bringing Caspian oil to the Baltic region. The Russian route was also proposed for transit of natural gas from the Karachaganak gas condensate field located near the Russian border.

As Askar Smankulov the general director of KazTransOil wrote in 2003, “the success of the further economic development of Kazakhstan will depend not only on the presence of oil and gas reserves, but primarily on the provision of transport independence of the republic in the export of hydrocarbon raw materials” (Smankulov 2003).

In 1994, the president of Kazakhstan, Nursultan Nazarbaev, proposed to establish the “Eurasian Union”. Later, the Eurasian economic community and Russia/Belarus/Kazakhstan customs union were created with the active involvement of Kazakhstan. Kazakhstan’s aspiration to political dominance in the region also resulted in a proposal of a new Central Asian block of states, although the eventual loss of oil and gas transit revenues would reduce the interest of Kazakhstan companies and ministries in a Central Asia without internal borders.

Unlike Kazakhstan, Turkmenistan has had fewer chances of becoming a transit hub. Transit of oil and gas from Turkmenistan to Europe is possible either via the Caspian Sea and then through two or three countries (Azerbaijan-Georgia, Turkey), or by sea through Russia, or by land through two or three countries (Kazakhstan-Russia or Uzbekistan-Kazakhstan-Russia).

Since the 1960s, natural gas was produced in Turkmenistan primarily for consumption in Russia. A major gas pipeline system “Central Asia – Centre” was laid through Uzbekistan and Kazakhstan to Russia. When Turkmenistan became an independent state in 1991, Russia remained the major consumer and re-seller of that country’s gas. In 2003, Turkmenistan and Russia agreed on deliveries of Turkmen gas until 2028.

Turkmenistan proposed to establish an international system of guarantees of reliable and stable transit of energy resources under the auspices of the United Nations (United Nations 2008). It proposed to build the gas pipeline Turkmenistan – Iran – Turkey – Western Eu-
europe, the Trans-Caspian gas pipeline from Turkmenistan to Azerbaijan, the Trans-Afghan pipeline (Turkmenistan-Afghanistan-Pakistan extending to India), and gas pipelines to South Asia (through Iran) and China (extending to Japan).

A pipeline to Northern Iran was built in 1997, becoming the first alternative route for the export of natural gas from Turkmenistan. The construction of the other export gas pipelines did not begin under Saparmurat Niyazov’s rule because of the tensions with Azerbaijan, the complex situation surrounding Iran, war in Afghanistan, and difficult relationships with Uzbekistan. Therefore, most of these projects have remained on paper.

The major features of Turkmenistan’s “pipeline strategy” remained unchanged after the death of Turkmenbashi in 2006. In May 2007 the leaders of Turkmenistan, Russia and Kazakhstan agreed on the construction of the Caspian gas pipeline and reconstruction of the “Central Asia – Centre” gas pipelines. At the same time, Turkmenistan did not reject the trans-Caspian route of gas export to Europe. In July 2009, the new President of Turkmenistan, Gurbanguly Berdymuhamedov, announced:

The independent audit of our gas fields carried out last year, and geologists’ recent discoveries unveiled huge reserves of natural gas in the territory of our country for global community. Our duty is to back these discoveries with diligent effective work. I would like to note that today Turkmenistan has surplus tank gas. We are able to sell a required volume of gas on the border of our state. This opens up the opportunities to implement a number of the projects, including the Nabucco Project” (Turkmenistan: The Golden Age 2009a).

Relationships with Russia were also affected by the conflict over the temporary suspension of transit through the gas pipeline in April 2009. The Foreign Ministry of Turkmenistan saw it as “careless and irresponsible actions posing real threat to the life and health of people and fraught with unpredictable environmental consequences” (Turkmenistan: The Golden Age 2009b).

The new Turkmenistan-China gas pipeline (through Uzbekistan, Kyrgyzstan and Kazakhstan) was inaugurated in December 2009. It may be expected that the Northern transit route from Turkmenistan will become less important in the long-run, giving way to the Eastern direction and eventually bypassing Russia, but not Kazakhstan.

Among the neighbours of Central Asia other than Russia, Azerbaijan is located closer to European customers and seems to be the
best oil and gas transit route from Turkmenistan or Kazakhstan to the West (via Georgia and Turkey). The transport network of Azerbaijan was primarily oriented towards the North (to Russia through the North Caucasus) and the West (to the Georgian ports of the Black Sea).

Despite Azerbaijan’s attractiveness as a transit state, it could not replace Russia because of security problems in the Caucasus. Economic ties with Armenia were completely broken, and transport routes to the North were regularly disrupted by the military conflict in Chechnya (on the oil aspect of the wars in the Caucasus see Said 2007: 130-156 and Kaldor 2007: 157-182).

It was only in the years of Heydar Aliyev’s second rule (1993-2003) that political stability was restored in Azerbaijan (on the political developments of this period see Dobronravin 2006: 338–342). In 2000, Heydar Aliyev said in an address to the Azerbaijan people:

The launch of the TRACECA programme, aimed at the restoration of the Silk Road, has facilitated further development in Azerbaijan's relations with European countries. As a country located in the centre of this major transportation corridor, Azerbaijan has become an important link between the East and the West… The vast intellectual potential, natural wealth and a unique geographic location between Europe and Asia mean that Azerbaijan can assume a worthy place in the world community. The forthcoming restoration of the Great Silk Road under the TRACECA project represents an opportunity for the intensive development of communications and the global information system (Aliyev 2000).

After the death of Heydar Aliyev, his son Ilham continued the same pro-Western (not necessarily pro-democracy) policy.

For the export of oil from Azerbaijan to Europe, the Northern route was initially used through the Russian port of Novorossiysk (and then through Turkey). The Baku-Supsa pipeline through Georgia was opened in 1999. The construction on the Baku-Tbilisi-Ceyhan pipeline was completed in 2005, bypassing Russia and the Black Sea ports altogether. In 2007, the Baku-Tbilisi-Erzurum gas pipeline became another point of entry to the Western markets. Azerbaijan joined the Nabucco project expecting its pipelines to be filled with oil and gas from Kazakhstan and Turkmenistan.

As a transit country for export of hydrocarbons from Central Asia, Azerbaijan may still become a major energy hub of Eurasia. However, strong competition from Russia (under any political regime), China and eventually India could reduce Azerbaijan’s attrac-
tiveness and prevent it from becoming a transit state comparable to Russia, Turkey or Ukraine.

Despite diversification attempts in the Western direction, Russia has remained the major transit state on the way from Central Asia to Europe. Trying to bypass Ukraine and Belarus, Russia’s “Transneft” and “Gazprom” have introduced new projects (North Stream, South Stream, etc.). As a result, the role of the Baltic and Black Sea regions has been growing.

New oil and gas transit projects involving the Russian Federation will bring new challenges and concerns making the Baltic Sea more ecologically vulnerable and perpetuating political and economic dependence of Central Asia upon Russia. At the same time, such projects may become more advantageous to the Baltic region as Russia will have to court Sweden and other states “along the sea road of oil and gas” (e.g. spending more on environmental protection) in order to keep export revenues flowing in to Moscow.

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1. Introduction

Energy diplomacy is a functional area within foreign and domestic political economy, which along with state bodies, government agencies and monopoly companies, displays many of the characteristics, forms and methods of diplomatic practice and several of the peculiarities associated with the specifics of the energy sector.

Energy diplomacy emerged as an independent phenomenon in the latter half of the 20th century. The stimulus for this type of diplomacy in its current form came from the government aspirations of countries endowed with considerable energy resources. These governments began to exercise control over hydrocarbons to strengthen their position and relationships with multinational companies and governments in the Western countries who are the main consumers of hydrocarbons.

2. Historical Background

The oil exporters of the Persian Gulf established the Organization of Petroleum-Exporting Countries (OPEC) in 1960. The goal of OPEC was to regulate the prices of energy resources and to defend the economic interests of the international cartel of the so-called “Seven Sisters”, big international oil companies and other large Western companies.
The main task of OPEC was to raise the mean prices of oil to increase profit margins for its members. The group of oil-exporting countries united under an official international organization that had a clear organizational structure and Charter. In essence, the role of intergovernmental regulation in the energy sector expanded. Despite the fact that it existed before, the activity of OPEC is an example of institutionalization for intergovernmental regulation. This marked the beginning of global frictions between the providers and consumers of energy resources.

Later in 1988, twelve other oil-producing nations including Russia formed an informal group that came to be known as IPEC. Until 1998, this informal organization cooperated with OPEC on issues related to regulating market prices for hydrocarbons and creating stable international energy systems.

In November 1974, the United States initiated the creation of the International Energy Agency along with other energy importing developed countries to counterbalance OPEC and form a collective system of energy security.

The United States and the “7 Sisters” (the leading British and American multinational corporations involved in hydrocarbon development) were to play a major role in deciding over issues related to energy security. The participation of the “7 Sisters” was a guarantee for uninterrupted delivery of oil to Western markets. In the IEA program document entitled, “Shared Goals” (adopted on 4 July 1993 in Paris), the following goal was highlighted:

To create the conditions for the energy sector of the 23 member-states of the IEA that would allow for a more active investment into the sustainable development of the member-states’ people and environmental protection.

The establishment of free and open markets, raising the level of security, supporting stable prices as well as developing alternative sources of energy are all areas that governments closely monitor.

In the IEA program document it is also noted that; “countries recognize the importance of ever-increasing mutual reliance in the sphere of energy”, on account of the fact that they are searching for the most effect ways for international energy markets to function and welcome a dialogue between all participants.” The goal of the IEA is important from the point of view of examining energy diplomacy because it creates and fosters dialogue among IEA participants, which is the very essence of energy diplomacy.
This resulted in the formation of the World Energy System that exists to this day. Countries that export oil and countries that import oil characterize the two antagonistic forces of the World Energy System. Furthermore, there are a series of additional actors that play a role in the second stage, including international organizations, multinational companies, transit countries, national state corporations, etc.

The current energy system replaced the traditional distribution of power of the first half of the 20th century. The former system was characterized by dominating developed countries waging wars among themselves over energy resources. Despite the fact that we have a new system, the conflict over energy resources persists because of competition between oil-exporting countries that has led to antagonism in the new World Energy System.

In all fairness, the 20th century has earned its name as the “century of oil”. The 20th century changed the historical development of the international community, thanks to oil.

The expansion of business from prospectors, sales agents, and large entrepreneurs, corporate bureaucracy and state companies, corporate strategies, technological progress, marketing, national and international economics boosted business in the 20th century. Oil as a commodity became directly connected with national strategy, international politics and power. Starting from the World War I in 1911, Winston Churchill, the then Minister of Internal Affairs, took the decision to convert the British fleet from coal power to oil, which lead to many of the later events following the World War II – i.e. conflicts between multinational companies and developing countries during the Cold War, decolonization and growing nationalism in Third World countries (Yergin 1991: 16).

In the book *The Prize: The Epic Quest for Oil, Money and Power*, Daniel Yergin provides the definition of oil as “a strategic commodity having a determining effect on the national strategies of governments and international politics” (Yergin 1991: 17). He further states that the world has become a “Community of Hydrocarbons” and humanity in the language of anthropology, “Hydrocarbon Humans”.

In the first decade of its existence, the oil industry supplied the industrial world with a product called kerosene (known also as “the new light”). A new era began later with the development of the gasoline-powered internal combustion engine. Replacing oil for coal in the industrial world created a new market for the oil industry. We are so dependent upon oil today that we do not even realize to what extent oil plays a part of our everyday lives – in agriculture, logistics and all
the way down to pharmaceutical and chemical production. Oil is the lifeblood running through the veins of urbanized societies.

In the book *Caspian Oil: Economics and Geopolitics*, V. A. Guseinov, Director of the Institute of Strategic Estimates and Analysis, highlights three reasons for the importance of oil and gas industry in international relations. Firstly, there is a mutual relationship between the conditions of international relations and the problems related to energy security of developed industrial countries. An example might be the energy crisis during 1972-1973. He also highlights covert and overt confrontations between leading countries of the world for the control of oil and gas fields.

Secondly, the energy sector plays a major role because it is one of the most profitable businesses that allows large oil companies to not only conquer new markets and consumers but also to lobby for their interests in the government.

The third reason that Guseinov gives is the inertia of the oil consuming countries, the oil exporting countries, and the oil and gas corporations concerning approaches to participate in the “Big Game” of hydrocarbon reserves. The participation of all of the major actors involved in oil politics is required lest it lead to a temporary shutdown for the players in the “Big Game”.

Currently, the relevance of energy security is central due to increased competition over finite energy resources. The energy sector plays a key role in the development of the modern economy. It is impossible to imagine the modern economy of a developed state without a high level of consumption of electricity in the production of steel, heavy machinery and so on. The modern way of life for man dictates the constant use of electrical devices in daily living. According to Maslow’s hierarchy of needs, the pyramid created by the American psychologist Abraham Maslow, energy is at the bottom of the pyramid and at the physiological level of human needs. The most basic of human needs is food and heating, which in the modern society is met by using energy. Energy is also central to a nation’s development and technological achievements.

3. Economic Aspects of Energy Policy

One of the most fundamental indicators of efficiency and distribution of energy is power consumption. In 1999, this indicator was the low-
est in the member countries of the Organization for Economic Cooperation (0.3 tons of oil equivalent of 1000 US Dollar of GDP). Between 1980 and latter half of the 1990s power consumption fell by 20%. This can be explained by policies for raising energy effectiveness, energy conservation, and also reducing industrial power consumption. The largest indicator was in Russia and the countries of the Newly Independent States (1.7 tons of oil equivalent of 1000 US Dollar of GDP). During the same period, power consumption in Eastern Europe and the Newly Independent States grew by only 15% because of economic downturns caused by poor power distribution to consumers and the absence of an energy conservation policy.

The sectors of the economy that consumed the most energy were metallurgy and transportation. The use of coal in industry worldwide between 1973 and 2005 grew by 20.6%, whereas oil consumption grew by only 14.9%.

According to estimations, by 2010 transportation will consume about 60% of all oil produced in the world. In the near future, it is doubtful that a serious alternative to oil as a fundamental fuel will be found.

The International Energy Agency (IEA) provides the following data regarding the world energy balance: World consumption of energy between 1973 and 2005 grew from 4,700 to 7,912 million tons of oil equivalent (oil from 48.2% to 43.4%, natural gas from 14.3% to 15.6%, consumption of coal dropped from 13.1% to 8.3%). Production and extraction during this period grew from 6,128 to 11,435 million tons of oil equivalent (natural gas from 16% to 20.7%, coal from 24.4% to 25.3%, atomic energy from 0.9% to 6.3%, and hydroelectric power from 1.8% to 2.2%). Oil production fell from 46.2% to 35% (International Energy Agency 2007).

For comparison, statistical data provided on the website of British Petroleum states that between 1965 to 2007 oil consumption in the world almost doubled - from 1,530.8 to 3,952.8 million tons per annum (approximately 1.5% per year). Gas consumption grew from 597.6 to 2,637.7 million tons of oil equivalent, consumption of coal - from 1,482 to 3,177.5 million tons oil equivalent, nuclear energy - from 5.8 up to 622 million tons of oil equivalent, hydroelectric power - from 210.5 to 709.2 million tons of oil equivalent BP (2008).

The consumption of each type of fuel is growing each year at a rate of 1-2% with the exception of nuclear energy, whose consumption is reduced each year by 2%. In 2007, the ratio of consumption of resources was as follows: oil – 3,852.8 million tons oil equivalent, gas
– 2,637.7 million tons of oil equivalent, coal – 3,177.5 million tons oil equivalent, atomic energy - 622 million tons of oil equivalent, hydroelectric power - 709.2 million tons of oil equivalent.

It is important to note the sharp growth in energy consumption by China (1,863.4 million tons of oil equivalent) and is now in second place behind the United States (2,361.4 million tons of oil equivalent). Energy consumption is also growing in India and Brazil. Japan has a traditionally high level of energy consumption at 571.5 million tons of oil equivalent.

Extraction and production of oil between 1965 and 2007 grew from 1,566.8 to 3,905.9 million tons a year. Production of natural gas between 1970 and 2007 grew from 917.7 to 2,654 million tons per year of oil equivalent. The extraction and production of coal between 1981 and 2007 grew from 1,850.8 to 3,135.6 million tons of oil equivalent.

For sustaining modern societies and developing their economies under such conditions, the fundamental task of energy policy and diplomacy must be to provide energy security. When looking at the entire world energy complex as a whole, it is important to note the high level of interdependence among countries and the fragile balance of interests where non-market factors such as official proclamations by heads of leading oil exporting states, importing states, and military actions, all prevail over market forces.

Currently, energy diplomacy includes a series of aspects including reliable supply to consumers by energy carriers, access to energy sources, hydrocarbon transport routes, electric power and the international aspects of nuclear energy. This type of diplomacy is an essential direction of foreign-policy activity, which facilitates the conditions for normal intergovernmental relations in the energy sphere. Moreover, one must take into account the growing number of interrelations within energy diplomacy considering the problems of globalization, world finance, ecology and so forth. The power industry is the engine of economic and social development of the state. The power industry is an important branch of business and has real economic significance. This branch includes output, processing and transport of thermal and electrical energy, and energy resources. These three components together comprise the fuel-energy complex.

Two types of economic factors influence the development of the fuel-energy complex at the national and the international levels, namely, macroeconomic and microeconomic factors.

Macroeconomic factors include rates and levels of economic growth as well as the structure and dynamics of GDP (Gross Domestic Product) of a country. Macroeconomic factors in essence influence long- and middle-term prospects and opportunities. Microeconomic factors include indices on world markets and exchanges, external economic activity of energy companies and banks, production, transport and processing of energy resources. Microeconomic factors in essence influence development over the short-term.

It is possible to isolate investment factors as a separate group playing an important role in development, as they often influence long-term outlook and opportunities. Development is characterized by high capital intensity and investment factors in some situations have decisive importance. In November 2007, the World Energy Council released the report, *Deciding the Future: Energy Policy Scenarios to 2050*, where the following estimations were given: in the period between 2007-2032 the total demands of the world energy sector for capital resources are predicted to be about 20 trillion USD, including investments increasing the effectiveness in the use of resources. This sum will rise significantly by 2050. More than half of this amount will go to the renovation of fixed capital of electrical networks and for the renovation of base materials which are used in the oil and gas industry” (World Energy Council 2007: 95).

The competitiveness of the state in the future will be determined by the following factors: energy consumption per capita and the growth of world energy prices. It will also depend on national security, both in politics and in the economy.

The purpose of national energy security is to ensure sustained energy supply and protect the country and its economy from internal and external threats. In this sense, the fuel-energy complex is a key component of energy security for states. At the forefront of such issues are safeguards and security both at the regional and global levels.

It is rather difficult to overestimate the role of the energy factor in global politics. Given the growth in energy consumption and rapid reduction of reserves, the need for uninterrupted supply of energy
products for domestic markets is a priority, along with the maintenance of military-political potential for most developed countries. Export-import relationships between producers and consumers of energy go far beyond the purely economic framework. Raw materials, especially oil, are transformed into a sort of indicator of the level of political and economic interaction between nations and a serious foreign policy tool. There is a direct correlation between market conditions and the current state of international relations.

The provision of world oil reserves at the present level of production (about 3 billion tons per year) is 45 years if the OPEC countries maintain their current level of production over the course of 85 years. However, in view of technological progress (energy-saving technologies, increased use of alternative energy sources), and at current rates of consumption, this period may increase. The main consumers of energy resources are the industrialized countries (U.S., Germany, France, Italy, Japan, China), while the major exporters are developing states and countries with transitional economies, including Russia and OPEC members, and developed countries like Norway, the Netherlands, Canada and Australia.

5. Actors and Methods of Energy Diplomacy

To understand the process of energy diplomacy, it is necessary to clarify the actors in energy diplomacy and the methods and tools of energy diplomacy. The actors of energy diplomacy are:

1. Countries:
   a. exporters of energy resources;
   b. importers of energy resources;
   c. transit countries;

2. International energy organizations (OPEC, the International Energy Foundation, the International Energy Agency, the EU, the CBSS).

3. Countries participating in the carbon finance program (CO2 emission countries).

4. Foreign economic and foreign policy departments and ministries that are involved in solving issues of international energy cooperation (Ministry of Foreign Affairs, Ministry of Energy, Ministry of Petroleum and Energy of Norway, etc.).
5. Multinationals.
6. Individuals.

Methods and instruments of energy diplomacy are:

1. Traditional:
   a. negotiation (international negotiations on energy issues have a common goal set by the participants to reach agreements);
   b. energy dialogue. Conducting a global dialogue of consuming countries and countries exporting energy resources within the IEA and OPEC;
   c. method of authorized and unauthorized leaks of information (the method used to solve problematic issues in the international energy sector with the help of the media);
   d. consultation on energy issues (formal and informal);

2. Special:
   a. the method of threats and blackmail during negotiations on energy issues, the use of environmental barriers to promote the implementation of the project (Nord Stream, BPS);
   b. statements by the heads of leading countries about the importance of global and regional energy security;
   c. the signing of agreements on joint projects with a view to introduce a foreign state in the project (development of Shtokman gas field);
   d. the introduction of political and economic sanctions - embargo, the threat of termination of food supplies (Iraq), anti-terrorist campaign;
   e. using connections during negotiations in order to facilitate or obstruct the negotiation process;
   f. using the transit of energy resources as political weapons - the exporter or the transit State (gas war between Russia and Ukraine);
   g. using the transit of energy resources as an economic weapon state (increase of tariffs);
   h. the weakening of existing transit systems (construction of the Baltic Pipeline system and the use of the port of Butinge (Lithuania) has deprived the port of Ventspils (Latvia) a monopoly position for the transit of Russia's oil via the Baltic Sea).

If we consider the theoretical foundations of the actors of the international fuel and energy complex, the international activities of the exporter should be to implement the following:

1. Export fuel and energy resources.
2. Develop and exploit hydrocarbon resources in the territory of other States.
3. Strengthen the presence of foreign countries on domestic energy markets, joint ownership in distribution networks of energy facilities and energy infrastructure.
4. Lobby for national interests in the energy sector in the bilateral agreements.
5. Transit of energy resources.

Correspondingly, the importer of hydrocarbons should carry out the following:
1. Import fuel and energy resources.
2. Create strategic stocks of raw materials on their territory.
3. Collaborate with the exporting counties of energy resources through the creation of common working groups, conferences and meetings.
4. Lobby for national interests in the energy sector in the bilateral agreements.
5. Transit of energy resources.

As we have seen, the activities of energy-exporting and energy-importing countries are very similar leading us to believe that these countries are closely interdependent, which in turn leads us to the theory of interdependence.

6. Theoretical Base of Energy Diplomacy

Interdependence is the situation when the growth of economic relations between countries is increasingly focused on political cooperation to resolve conflicts by peaceful means. Cooperation in the energy sector leads a state to the point of intensive diplomatic dialogue, legal definitions of relationships, and cooperative strategies to resolve disputes. However, this approach underestimates the varying importance of energy cooperation for our partners.

An example is the crisis in relations between Russia as a net exporter of energy and the Republic of Belarus as a net importer of energy. In March 2006, immediately after the presidential elections in Belarus, despite earlier statements by President Vladimir Putin that the price of gas for Belarus will not be raised, the management of Gaz-
prom in 2007 decided to increase the prices to European levels just a few minutes before the signing of the contract for gas supply and transit. However, on January 3, 2007 the Republic of Belarus introduced duties on the transit of Russian oil flowing through the “Druzhba” pipeline. After lengthy negotiations and pressure from the European Union, Belarus removed the duties on Russian oil transit on 11 January, 2007. According to the former speaker of the Belarus parliament, Stanislav Shushkevich, "Russia has so much leverage over Belarus, it is difficult to even fathom. Russia can put the entire Belarusian economy on its knees. When energy is more expensive, the competitiveness of Belarusian goods will fall sharply".

Another liberal paradigm in international relations is the theory of regimes, which describes the functioning of international regimes. An international regime is a set of rules and procedures to be implemented in order to solve a limited range of issues. From this perspective, one can speak of the existence of a global regime of energy security that provides stability in interaction between actors. The system of contracts and contractual obligations between states and corporations, as well as international organizations such as OPEC, IEA, and International Energy Forum are elements of the global energy regime. One attempt to strengthen energy trade is the Energy Charter Treaty involving the establishment of legally binding rules. These rules, however, are general in nature as opposed to private legal obligations on individual contracts that exist in contemporary international practice.

Regime theory scholars Robert S. Cohen and Joseph Nye define international regimes as "a set of implicit and explicit principles, norms, rules and procedures for decision making around which actors’ expectations converge". The concept of the international regime enriches the concept of "rational choice" and allows this opportunity to realize inter-State cooperation and overcome "short-sighted interests" (Keohane 1983: 145).

Scholars from the school of transnationalism believe that in contemporary international relations there are a wide range of actors that are not restricted by states, like intergovernmental and nongovernmental organizations, enterprises, social movements, associations and individuals. There are also other types of connections – cultural, scientific, political cooperation, economic exchanges – as well as other channels such as religious connections, kinship, trade relations, inter-university partnerships, etc. Transnational cooperation occurs with and/or without the participation of states. In this globalised world, the division of internal and external policies is absent due to
the lack of national borders. Transnationalists and globalists share similar views.

Transnationalism considers the actors of the world energy space as transnational corporations, international organizations and private individuals. From this perspective, it is rather difficult to formulate energy diplomacy as a product of foreign policy, since transnationalists do not examine the role of the state. However, the world energy space is seen as transnational, as it exists outside the boundaries of states as defined by a geographic location of energy reserves and settlements of its consumption.

In the globalist concept, it can be clearly seen how countries depend on each other's energy plans. Globalists emphasize the erosion of national sovereignty and the weakening of traditional state functions vis-à-vis international associations formed on the basis of free market, common moral values, and universal legal norms that support and promote natural rights and freedoms. According to Pavel Andrei Tsygankov, the global concept is part of the post-class version of the liberal-idealist paradigm. Globalists learn important components of energy policy and security - the impact of information and new technologies on the economies of the world.

Energy is that area of the economy that brings together many countries. This is one reason why energy policy and diplomacy are important components of global economic stability. Considering the necessity for cooperation between energy exporting and importing countries, the specific steps to be taken can be summarized as follows:

1. Develop a unified legislative framework in fuel and energy sector.
2. Form and implement countries' energy strategies.
3. Reform the national electric power sector.
4. Implement large investment projects in oil and gas exporting countries.
5. Create the ability to implement similar projects in third countries.
6. Increase fuel efficiency and energy.
7. Develop renewable energy.
8. Apply clean technologies in the coal industry.
9. Carefully study and search for solutions to environmental issues.
10. Improve the transportation of energy resources.
11. State participation in international organizations (APEC, OECD, WTO, and NAFTA).
7. Case Studies of Energy Diplomacy of Baltic Sea States

An important role for creating energy security in the Baltic Sea region is played by the European Union as an actor of energy diplomacy. The intensification of the integration processes within the European Union significantly intensified the implementation of a common energy policy within the EU for non-member countries and international organizations. The concept of the EU energy policy has been developed in the form of special programs, or the so-called green and white books. A "Green Book" contains the results of a study identifying the issues, and the "White Book" is a program of proposed activities and the preparation of legal acts. In 1997, the White Book adopted a program called, "Energy for the Future: Renewable Sources of Energy", and an energy security strategy was included in the Green Book in 2001. Based on the latest Green Book in 2002 called "Intelligent Energy for Europe", (calculated for 2003-2006), there were a large number of legal acts developed in the energy sector regulating the relations within the EU and with third countries.

The EU Commission has noted the increasing EU energy dependence on imported fuel and energy resources. It is estimated that 50% of the energy demand is currently covered by imports. If current trends continue this figure could increase to 70% by 2030. The long-term strategy for energy supply to maintain the welfare of EU citizens and the economy should be balanced: to ensure uninterrupted physical availability of energy to the market at prices suitable for all customers (residential and industrial), take into account the environmental factors, and the concept of sustainable development enshrined in the EC Treaty. Hence, energy security should be examined not as the maximization of self-reliance and reduction of energy dependence, but as a way to reduce the risks associated with such dependence.

Imports of oil and gas are increasing and there is a plan to develop a mechanism for creating strategic reserves. Directives have already been adopted that facilitate the formation of strategic reserves of the three main petroleum products equivalent to 90-days of consumption. Some EU countries have even exceeded that figure.

On the domestic sphere, there was a proposal to modify the supply-oriented approach focusing on demand management and energy consumption, which is considered as a promising option. On the demand side, they want to change consumer behaviour through taxes
to control consumption and taking into account the environmental requirements.

The EU’s energy security regarding the states in the Baltic Sea Region is determined by the progressive exhaustion of energy resources and its oil and gas provinces in the North Sea. The growing need to ensure a stable supply of these strategic resources to the economies of the EU necessitates the search for new sources of oil and gas supplies from the surrounding regions - the Caspian Sea, North Africa and Nigeria.

The EU is very interested in the flow of strategic raw materials to their markets. To implement these objectives the EU countries are investing in these regions. The EU devotes great attention to the ways in which oil and gas can be delivered to its markets. The main tools of Western European energy diplomacy in the Region are the Energy Charter Treaty developed at the suggestion of the EU, and special bilateral agreements with all countries. Energy Diplomacy in the EU is also carried out by special funds and programs among which we can identify as the TACIS program. It is devoid of investment character, but under its auspices the parameters for energy and transport cooperation are determined, and evaluation methods for the main projects and routes for transportation of hydrocarbons in Western Europe. The activities of the major consumers of energy resources within the EU is worth noting; viz. the UK, Germany, France and Italy. Their companies (British BP and British Gas, the Anglo-Dutch Shell, French TotalFinaElf and Gaz de France, Italian AGIP and ENI, and the German Ruhrgas) are supported by national governments to carry out active measures to gain access to the resource-bases of oil exporting countries, or for transportation projects of raw materials to Europe.

A striking example of energy diplomacy in the Baltic Sea Region is the closure of the Ignalina plant in Lithuania. The Ignalina nuclear power station was built during the Soviet period. The first block went into effect in 1984, and in August 1987 (more than a year after the Chernobyl accident) the second block was commissioned. A third block was built as well but in 1989 all work on it was completely frozen due to public protests.

Iglalina NPP should be closed before 2010 as a condition of Lithuania’s entry into the EU. As we approach this period there is a growing movement in Lithuania for the extension of this plant’s operation. The work of the Ignalina nuclear power plant did not raise serious concerns among specialists since all reactors after the Chernobyl
The accident had some upgrading done. According to some experts, the reason for the ultimatum by the EU is not technical but ideological: "The European Family" did not want Soviet reactors on their territory. But the main task is to become completely energy independent from Moscow.

The first reactor of the Ignalina nuclear power plant worked for 20 years and was stopped in December 2004. The second should be stopped by December 2009 at the request of the European Union. Given that 74% of the electricity that Lithuania receives is from this second reactor, it is easy to imagine all of the consequences of losing the second reactor, if by that time the problem of supplying the country with electricity from other sources has not been solved.

The Lithuanian government decided to build a new nuclear power plant at the location where the current reactors are. The only difference is that the new reactors will be Western European. The new plant will cost Lithuania $6.4 billion USD with two French reactors with a capacity of approximately 3.6 megawatts.

Since the cost is significant, it was decided to create a consortium of countries that would invest in a new regional plant. The consortium includes all of the Baltic countries and Poland. However, there was a problem right from its inception. The Lithuanian President, Valdas Adamkus, signed a law under which the country will get a 34% stake in the future NPP. This means that the three remaining members of the consortium get 22% each. Poland disagrees with this and wants no less than a third of electricity that will be produced at the new plant. Moreover, Poland is planning to build its own nuclear plant by 2020 (Yaroshinskaya 2008).

The situation is exacerbated by the fact that the timelines for construction of the new nuclear power plants listed in the National Energy Program of Lithuania are unrealistic. This was confirmed by the Vice-President, Mr. Yves Guenon, of the Franco-German company producing nuclear reactors AREVA. The most realistic date is not 2015 but 2025. Environmental organizations have also protested against the construction of the new nuclear power plant in Lithuania.

The problem is that stopping the reactor in Lithuania deprives the country of a source of energy, which inevitably can lead to the country’s collapse. The European Union, in turn, does not intend to review the question of postponement of the closure of the last reactor. Thus, countries lobbying for their own interests (in this case the French) dominate the EU energy policy in the Baltic Sea.
A similar situation can be observed in Finland. In 2002, Finland decided to build a fifth reactor on its territory. In March 2003, there were three companies at the tender meeting (initially there were four):

- Framatome ANP - European reactor with pressurized water (EPR, European Pressurized Water Reactor) power of 1600 MW, as well as boiling water reactor (BWR, Boiling Water Reactor) SWR-1000 capacity of 1200 MW;
- General Electric-economically simplified boiling water reactor (ESBWR, Economic Simplified Boiling Water Reactor) power of 1390 MW;
- Atomstroyexport (Russia) - VVER-91/99 (modernized version of the VVER-1000).

Despite the fact that Russia's proposal was economically more advantageous, Finland preferred the reactor EPR consortium Framatome ANP (a joint venture of the French company Framatome and the German group, Siemens AG). They signed a contract worth 3 billion Euros but currently the project budget has grown to 5 billion Euros.

This situation illustrates the fact that decisions are made within the European Union and the preference for their producers. This is a vivid example of energy diplomacy and protectionism.

Sweden is an energy-importing country. The supply of energy from domestic sources clearly demonstrates Sweden's independence from the current situation in the international energy market. Most of Sweden's energy comes from nuclear power – approximately 35%. Biofuels, which is "Sweden's Green Gold", supplies another 17% of the power (Globalwatchonline 2006: 3).

In 2005, the Minister for Sustainable Development, Mona Sahlin, announced the country's intention to "break the oil dependency" by 2020 (Globalwatchonline 2006: 2). The ultimate goal of the Swedish government is to reduce emissions, reduce the total energy usage, increase energy efficiency, renewables and biomass.

The principal themes of Swedish energy policy are:

- energy efficiency;
- renewable energy sources and bio energy, "Sweden's Green Gold";
- transport sector;
- power production and heating.

Concerning Swedish energy diplomacy, the aims are to create favourable conditions for efficient and sustainable energy use and a competitive, cost-effective and secure energy supply with low nega-
tive impacts on health, environment and climate. The government body that is in charge of the energy policy is Ministry of Sustainable Development, and the Swedish Energy Agency is the principal agency for implementing policy.

Sweden considers its regional energy cooperation within the Nordic and Baltic regions important. Sweden is a partner in Nordpool, the Nordic electricity market, and in the Nordic Council of Ministers has developed an “Action Plan for Nordic Energy Cooperation 2006-2009” (Nordic Council 2005).

The main thrust of this is on:

• energy markets;
• sustainable energy systems;
• and developing a coherent Nordic input to EU policy.

In cooperation with the EU, Sweden formulated its energy and climate policy on the same three pillars as the EU:

• ecological sustainability;
• competitiveness;
• security of supply.

The goal of the Swedish government is to achieve the following indices by the year 2020 (Regeringskansliet 2009: 2):

• 50% renewable energy;
• 10% renewable energy in the transport sector;
• 20% more efficient energy use;
• 40% reduction in greenhouse gas emissions.

Energy and climate change are national and international policy priorities for Sweden. As part of its overall energy supply, Sweden has a record on expanding district heating systems with the use of renewables. Because of a 1980 referendum Sweden is still quite concerned about the vast part of nuclear energy which will be phased out “as soon as alternatives can be found” (Globalwatchonline 2006: 3).

Norway is not a member of the European Union, but is included in the Baltic Sea Region and performs many of the EU Directives. Proven oil reserves in Norway are estimated at 10.4 billion barrels. The country possesses the largest oil reserves in Western Europe. Most of the oil is extracted offshore in the North Sea whose potential is still great.

Experts predict that within the next few years, reserves of hydrocarbons in the Norwegian North Sea may rise to 5 billion barrels of oil and 2.8 trillion cubic meters of gas. Norwegian oil differs because of its low sulfur content. Most of the oil reserves are concentrated in several large fields, such as Statford, Oseberg, Galfaks and Ekofisk.
The oil and gas sector plays a significant role in the economy and development of the country. The Norwegian oil and gas sector contributes to 15% of the GDP, 33% of export income, and 25% of investments. A considerable part of budget surplus comes to the Government Pension Fund-Global established in 1996. The Fund is an important instrument of energy policy of Norway. Firstly, Norway invests the Fund’s savings in ecological and technological development of the oil and gas industry. Secondly, Norwegian government invests the Funds’ savings in foreign companies stocks and bonds. Priority is given to the companies of OECD member countries that clearly demonstrates the use of ―club rules‖ of game.

Although Norway is not a member of the EU, it has to play by the rules set in Brussels because Oslo is a signatory to EU economic agreements, and all of the leading Norwegian oil consumers are signatory to EU membership. Because of this arrangement, Brussels’ “Gas Directive” also applies to Norway – the directive requires member states to allow third party pipelines and suppliers access to their national infrastructure in the name of market liberalization. One of the consequences of the implementation of the EU directives was the partial privatization of state-owned company Statoil in 2001.

Norway is also a member of OECD and IEA. And this fact influences the energy policy of Norway, which we bound by certain obligations in the framework of collective energy security of IEA member countries. Norway also signed the Energy Charter Treaty (ECT) that plays an important role in energy relationships between the EU and Norway.

The energy policy and diplomacy of Norway is formed by the Ministry of oil and energy and the Ministry of Foreign Affairs and special departments of these Ministries. The Norwegian Petroleum Directorate coordinates the activity of Norwegian oil and gas companies, StatoilHydro and Saga Petroleum.

The energy factor is also clearly present in bilateral foreign policy and foreign economic relations of the Russian Federation with its leading partners. In the Russian case, the influence of the energy factor on the state is very clear with regard to multilateral economic cooperation at the regional and global levels. Therefore, energy diplomacy is among the priorities of Russia's foreign policy doctrine. Attention is given to energy issues in terms of Russian foreign policy and its security in all spheres, determined by the capacity of its fuel and energy resources. According to the founders of the “Doctrine of Energy Security”, this is
a national treasure of Russia”. It is known that Russia has 13% of the world’s oil reserves, 23% of the coal, and 45% of the world’s natural gas. The export of these resources comprises about 54% of Russia’s exports and is a major source of revenue for the Russian state budget.

The role of the fuel and energy complex in the economy of Russia has spurred the creation of a number of fundamental documents on basic principles and guidelines for the country’s foreign policy in the sphere of energy diplomacy. These include the doctrine of energy security and Russia’s energy strategy until 2020.

The concept of energy security in the doctrine is defined as “security of the country, its citizens, society from threats to fuel and energy” (Government of Russia 2003). Energy security is rated as one of the factors that provide vital interests to the state and its citizens, protection of Russia’s sovereignty, the integrity of its territory and the inviolability of the constitutional order.

The Energy Strategy of Russia until 2020 was developed by the Russian government and adopted by Government Decree № 1234-r, dated 28 August 2003. It is a guide on the fuel and energy complex development in terms of domestic and foreign policy. This is a conceptual and practical document specifying goals, objectives and main directions for long-term energy policy for the state in this period. Given the prevailing external and internal situation in the energy sector, the increasing role of this sector is ensuring the unity of the economic space of Russia, the globalization of energy markets, trends, geopolitical, macro-economic and scientific-technological development of the country, as well as shaping the environment, conditions and mechanisms to ensure the goals and objectives.

If you analyze the energy strategy of Russia as an energy diplomacy tool, one of the main goals of our country is to ensure its own energy security as an essential component of its economic security by reducing the influence of external risk factors, and the prevention of crises in world energy markets. An important task is to maintain the export potential of the state’s fuel and energy complex along with the geographical expansion and diversification.

8. Conclusion

Energy diplomacy in Baltic Sea states consists of three parts – energy diplomacy of exporters (Russia and Norway), energy diplomacy of
importers (Germany, Poland, Finland etc.) and energy diplomacy of transitional countries (Latvia, Estonia). Each of these countries try to use its own power instruments to achieve the most-favoured nation treatment in the energy field. Most of the energy diplomacy processes are regulated by legislative rules of the European Union and national energy strategies.

With regard to the domestic energy policy of export countries, the fact that the national energy companies are controlled by government should be emphasized. Development of the energy industry is the main goal of energy diplomacy. This includes maintenance of material and technological base of the fuel and energy complex on a sustainable level. Foreign private investments should be attracted for the development of new fields as well as for renovation of facilities. One way of attracting investments is implementation of a production-sharing agreement or if a transnational corporation becomes a partner in oil and gas field development. Reforms on privatization of national energy companies for competitive growth on international market (StatoilHydro) should be taken into consideration when we speak about domestic energy policy.

For example, the Russian-Norwegian relationships are specified by the fact that both countries are exporters of energy resources on European market. Russia and Norway are not only partners but also competitors on this market. The two countries cooperate in investments and R&D. The Shtokman gas field development could be considered as an example. Not only the French company Total but also StatoilHydro are partners of this project. The Norwegian experience in energy diplomacy with IEA and OPEC is important for Russia.

Considering the international aspects of energy diplomacy of export countries the growing role of export countries on international energy market should be mentioned. These countries are interested in supporting energy resource prices avoid significant price fluctuations. For Norway and for Russia it is important to cooperate with the EU, IEA, OPEC and CBSS in the framework of international conferences.

The consumption in import countries in Baltic Sea Region will rise. And that leads to the dependence on energy supply from exporting countries. This will also lead to the problems of national energy security in the importing countries. The shared goals for these countries are establishment of collective energy security in the Region and on the national level – to establish Strategic Petroleum Reserves for 90 days. The Energy Charter Treaty mentions other goals as well - non-discriminatory conditions for trade in energy materials, products
and energy-related equipment based on WTO rules, and provisions to ensure reliable cross-border energy transit flows through pipelines, grids and other means of transportation. The EU also gives a great deal of emphasis on the development of the Common Energy Policy.

Priorities in energy diplomacy of transitional countries are investment attraction for transportation development and unification of international legal regulations and rules in energy resources logistics. There is a certain competition between transitional countries on export oil and gas transit routes. Construction of the Baltic pipeline system, the oil terminal in Leningrad Region and the diversification of oil transit routes reduced Ventspil’s (Latvia) role as an oil port.

Regarding the economic aspects, the main interest of transitional countries is gaining maximum rents from energy transportation services on their respective territories. This aspect increases frictions between the exporting countries, the importing countries, and the transitional countries. The role of energy diplomacy is to regulate this process and to prevent considerable losses.

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Nuclear Renaissance in the Baltic Sea Region

Thomas Jonter

1. Introduction

Over the last five-six years many experts within the field of energy policy have been discussing a renaissance for nuclear power. After the nuclear accident in Fukushima, it can be questioned whether the nuclear renaissance will have any future at all. On the other hand, there are also good reasons to believe that not even the tragic nuclear accident in Japan will change the prospects for an extended future role for nuclear power. Perhaps the most important reason for this scenario is that currently there seems to be no viable alternatives to nuclear power. If states continuously rely on coal, gas and oil without robust investment for a real break-through for alternative energy sources to be developed in the long run, the environmental and economic costs for that option would be devastating. One obvious reason for not counting out a greater role for nuclear power is the increasing global demand for more energy. World Nuclear Association, for example, estimates that the global population growth in combination with industrial development will lead to a doubling of electricity consumption by 2030.\footnote{World Nuclear Association, \texttt{<http://www.world-nuclear.org/info/inf16.html>}, accessed December 2010.} Regardless of whether one is for or against nuclear power, it is a fact that a growing number of reactors are being built and the driving force behind this development is the growing need for energy.

In the year 2011 there were about 440 nuclear power reactors in the world (IAEA 2011). In 20-30 years, this figure may double if the rate of expansion continues. A number of states are currently expanding their nuclear capacity, while others are constructing their first reactors. Currently, some 60 countries are considering introducing nuclear en-
ergy. The International Atomic Energy Agency (IAEA)\(^1\) expects that between 10 and 25 new countries will be commissioning their first nuclear power plants by 2030. Many of the countries that already have nuclear power are planning or building new reactors or extending the operational life of existing reactors (Amano 2010). The Baltic Sea Region is not an exception in this respect.

More reactors mean more reactor facilities to be controlled by the IAEA. The so-called NPT regime, including the Treaty on Nuclear Non-Proliferation of Nuclear Weapons (NPT) and the related international control regimes dealing with export control and physical protection, has in many respects been a success story. Considering that a large number of states were contemplating acquiring nuclear weapons in the 1950s and 1960s, the number of nuclear weapons states might have been about 30 instead of the existing nine today unless the work toward nuclear proliferation had been successful. Is the present NPT regime and the IAEA as a sole organization in a situation to handle the enormous work and responsibility involved in making possible an expansion of nuclear power development in a multipolar world, while at the same time supervising and inspecting all the reactors and facilities all over the world where fissile materials are being stored? Today, the NPT regime is being questioned by many commentators. Some critics even claim that it has or is in the process of losing its preventive force. They assert that it has failed to prevent North Korea from conducting a nuclear weapons test or Iran from pursuing nuclear weapons capability and this may lead to a spiral of proliferation. In many regions of the world, the proliferation risk is the greatest challenge to the nuclear renaissance. In the Baltic Sea Region, however, there is hard to see a connection between an upgraded role of nuclear power and an increased risk of nuclear weapons proliferation. The EU states Finland, Germany, Poland, Sweden and the Baltic states are in many ways strongly integrated in global (IAEA) and regional (Euratom) non-proliferation structures. Russia possesses nuclear weapons and it is hard to imagine that the Russians would accept that Belarus acquiring nuclear weapons capability. The immediate risk in the Baltic Sea Region is rather the nuclear security aspect. When nuclear power is expanded, there is a corresponding increase in the trade in nuclear

\(^1\) The IAEA is the world’s center of cooperation in the nuclear field. It was set up as the world’s "Atoms for Peace" organization in 1957 within the United Nations family. The Agency works with its Member States and multiple partners worldwide to promote safe, secure and peaceful nuclear technologies, see <http://www.iaea.org/About/index.html>, accessed 13 December 2008.
material, with the implication that transports of fissile material – by land, air or sea, between states and within – will also expand. A global non-proliferation system must be able to control and protect a growing number of nuclear energy facilities and deposits storing uranium, plutonium, and other fissile materials all over the world from terrorist attacks and thefts.

In this paper, I argue that in order to move forward, a new system of global non-proliferation needs to be created. A division of responsibility between the IAEA and other regional bodies will have to be instituted, since the IAEA cannot handle this task on its own. A new approach is needed that is capable to go beyond the legal and regulatory arrangements based on international regimes and create a more effective and flexible system. In this proposed flexible system, a reformed NPT regime will form the core. For example, within European Union the Euratom must assume a greater responsibility to make sure that effective measures are taken to prevent the spread of nuclear material. However, two additional tools must be added to the toolkit. The first tool consists of functioning multilateral arrangements regulating the development and/or ownership of technology and fissile materials. The main idea behind this type of arrangement is either to set up a globally controlled common bank for nuclear materials, or to promote cooperation between states to prevent any one actor from achieving exclusive control. The second tool that needs to be added to a reformed NPT regime is a huge investment in a new proliferation-resistant nuclear fuel and technologies. The technology that exists today has been developed within the framework of a military paradigm, since nuclear power was originally used for military purposes. If the starting-point is to produce proliferation resistant nuclear material and nuclear technology, then the NPT regime would be much more efficient in combating the spread of nuclear weapons. By combining these two tools, in conjunction with a new NPT regime where a division of responsibilities between IAEA and regional bodies is worked out, a stronger and more flexible regime can be created. These measures have to be taken on a global level.

I further argue in this article that the nuclear security infrastructures have to be improved radically in order to make a renaissance of nuclear power possible. This is especially the case in the Baltic Sea Region where a greater role for nuclear power means more trade with nuclear material and more facilities to protect from terrorist attacks and sabotage. The Nuclear Security Summit of April 2010 and the agreement to hold a second summit in South Korea in 2012 demon-
strate that the international community perceives the nuclear terror threat to be clear and growing. The summits illustrate a growing international recognition that a nuclear terrorist event would cause significant damage to the political, security and economic interests of all countries regardless of the specific target and location. In the context of the pending nuclear renaissance such an event would have potentially devastating implications for the future viability of nuclear power to meet energy security and climate change goals by undermining political and popular support for expanding the nuclear sector. There are parallels here with the Three Mile Island (1979), Chernobyl (1986) and Fukushima (2011) accidents which damaged the general safety reputation of nuclear power internationally, and significantly increased the economic and political costs associated with developing nuclear power because of increased regulation, delays, re-design and the understandable growth in public anxiety. A ‘security’ event would undoubtedly have similar implications.

2. The Renaissance of Nuclear Power in the Baltic Region

Several steps have been taken to expand the nuclear capacity in most countries around the Baltic Sea in recent years. Russia is currently upgrading its capacity as a great nuclear power. As part of President Putin's initiative on Global Nuclear Energy Infrastructure Russia has also taken steps towards providing eventual integrated full fuel-cycle services, including possibly leasing fuel, reprocessing spent fuel for countries that are interested in it, and even leasing reactors (IAEA 2008b). Plans to double its nuclear energy production capacity in a couple of decades are discussed within the Russian nuclear circles. At present, Russia has 31 nuclear plants in operation. The total nuclear capacity in Russia is not known because some vital parts of the nuclear infrastructure are used for weapons-grade production of nuclear material and is therefore classified information. Russia has also plans to become an important actor in the future global nuclear industry with plans to export nuclear technology and build nuclear plants in

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other countries.1 Russia has also plans to construct several new nuclear plants in the Baltic Sea Region. In the Kaliningrad enclave, a plant is scheduled to be constructed in 2014, according to Rossiiskaya Gazeta (Press Center of Nuclear Energy Industry (2009)).

At present, Finland is building a new reactor in order to meet its future energy needs. Finland has four nuclear power plants in operation, which means that 33.1% of all electricity consumed comes from nuclear energy.2 In Sweden, nuclear power is one of the most important sources of energy. The country has 10 running reactors for electricity production. In 2010, the electricity generated by these nuclear power reactors makes up 37.4% of Sweden’s total consumption of electricity. The average for OECD was then 22%.3 As in many western countries during 1970s and 1980s, nuclear power came under heavy criticism. Because of this criticism, a national referendum on nuclear power was held in 1980 in which a majority of the population voted for a nuclear phase-out, which was to be completed by 2010. Today, nobody seriously believes that nuclear power will be abandoned in the near future. Nuclear power is more frequently referred to by Swedish politicians as an essential part of a future national sustainable energy policy.4

Germany has 17 plants in operation.5 The nuclear situation in Germany is in many ways similar to the Swedish nuclear experience. In the period of 1950-1975, nuclear power was very popular among the public and leading politicians in both countries. Large investments in R & D resulted in rather ambitious nuclear power programs. However, against the backdrop of heavy criticism from environmental groups and the growing questioning of nuclear safety after the incidents and catastrophe in Harrisburg and Chernobyl, investments in nuclear energy dried up in both Germany in Sweden. After the Fukushima accident, the German government announced a three-month shutdown of seven of its 17 nuclear power plants and a review of its nuclear strategy. If this review will lead to a total phasing out of nuclear power in Germany remain to be seen.

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4 In February 2009, the liberal-conservative government of Sweden announced its plans to build ten new reactors when the present ten reactors are about to be phased out, Swedish radio, 5 February 2009 <http://www.sr.se/ekot/artikel.asp?artikel=2616205>.
Four Baltic nations - Latvia, Lithuania, Estonia, and Poland - have decided to build a powerful nuclear plant together. In the Soviet Union, it had a two-unit RBMK-1500 nuclear power plant on the banks of Lake Drusiai near the town of Ignalina. The first unit of its nuclear plant was decommissioned in December 2004 due to security reasons. The second unit was to be shut down no later than December 2009. In the meantime, the facility meets 74% of Lithuania's electricity demand. The country is about to lose its electric self-sufficiency. The new plant is planned to be built in 2015. The intention is to be more self-sufficient in energy and thereby phase out dependency on Russian gas and oil.

Belarus is also planning a nuclear power plant. If all goes according to the plan, Minsk expects to commission the first unit by 2016 and the second unit shortly thereafter. Ambitious plans by some in the country's scientific establishment include the construction of several more nuclear reactors and the nuclear generation of 85 percent of the country's electricity by 2050. The foremost reason for Belarus to explore the nuclear option is based on the notion that the country needs more energy and fears too much dependence on energy imports from foreign sources (Loukianova 2008).

From the above sketched picture of a future containing a greater role of nuclear power in the Baltic Sea Region, we can expect an expansion of trade in nuclear material and nuclear related technology between the countries over land, sea and air. In addition, we have to take into account that a renaissance of nuclear power means more plants, laboratories and storages (uranium and plutonium) that have to be protected from theft and sabotage. In sum, these challenges need greater of cooperation between the states in the field of safeguards (nuclear material control), illicit trafficking (customs, police), transportations, and physical protection.

3. The Global Nuclear Non-Proliferation System and Its Functions

What is it that we want to prevent from spreading and therefore need to control and supervise? There are two alternative routes leading up to nuclear weapons. Either one produces a uranium bomb (U-235 which is produced through an enrichment process), or a plutonium device (a production process which involves reprocessing of the ura-
nium). According to some experts, thorium may also be used as a charge in a nuclear weapon and should be subject to control for that reason.¹ Regardless of whether one chooses U-235 or plutonium as fissile material, the production steps in weapons production are identical with those in peaceful nuclear energy production up to the point where fissile material is produced. The subsequent step is a process in which the nuclear material acquires weapons-grade quality. The systems that most states in the world maintain for producing nuclear power in principle can be used for producing weapons-grade nuclear material if certain technical adjustments are made, such as separating the uranium and exchanging the fuel in the reactors more frequently. In the light of this, it is obviously important to maintain surveillance and control of all nuclear energy facilities (reactors, storage facilities, laboratories, etc.) that deal in some way with nuclear materials that can be used for nuclear weapons production either in their existing condition or subsequent to certain modification processes.

**Nuclear Non-Proliferation: What Is It More Specifically?**

So what does the global nuclear non-proliferation system consist of more specifically? Apart from the IAEA there are other organizations engaged in nuclear non-proliferation. Each of these organizations specializes in certain aspects of the non-proliferation work. Broadly speaking, there are five different areas in nuclear non-proliferation work: nuclear materials control, export control, physical protection, transport security, and the increasingly important work of preventing the illegal handling of radioactive material – the so-called illicit trafficking. These five areas consist of a number of different cooperative arrangements in the form of treaties, international conventions, regulations, security norms, inspection routines, well-tried scientific methods, surveillance systems, etc., the common purpose of which is to prevent the spread of nuclear materials and equipment that may be used for nuclear weapons production.² This type of international collaboration constitutes a special form of cooperation, which goes under the designation of “international regimes.” An international regime comes into being when a number of states with convergent interests

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¹Not all experts on fissile materials share this view. Other experts claim that for physical reasons it is not possible to radiate thorium into U-233 for use in a nuclear device, as some have suggested. Nevertheless, thorium remains subject to control.
²For a more extensive review, see the textbook by Jonter & Håkansson (2007).
establish a joint control regime in a specific domain, with the purpose of achieving common objectives. The members of the regime share the same values and they seek to have these values serve as guidelines for the control system.¹

The Emergence of a Nuclear Material Control

Shortly after the nuclear weapons were dropped over Japan, measures were taken on an international level to prevent the spread of this weapon of mass destruction. Several ideas and proposals were discussed in the newly founded United Nations and in other international arenas. Most of these ideas and proposals came to nothing in the years following WWII. These were often radical proposals that were undermined by cold war manoeuvrings of the superpowers. One example of a proposal that ended up in the dustbin is the so-called Baruch Plan of June 1946. The objective of this proposal was to create an organization, the International Atomic Development Authority (IADA), which would either have the right of disposition or exercise control over all nuclear energy activities in the world that were considered a threat to global security. One of its first tasks would be to gather and maintain complete and exact information about the world’s reserves of uranium and thorium and to take control over them. The Baruch Plan aimed at creating an international organization with real powers to handle transactions involving nuclear materials. In the end, the plan was dismissed, mainly by the Soviet Union, as being too unrealistic and intrusive (Fischer 1997: 19 et passim).

There was a substantial fear around the world, especially in the United States, that more nations would soon be able to achieve nuclear weapons capability with the spread of information about the production technique and nuclear materials. The Soviet Union had already carried out a nuclear weapons test in 1949 and Great Britain became the world’s third nuclear power in 1952. Furthermore, various several reports portrayed the rapid growth of the Soviet nuclear arsenal. The Candor Report of 1952 stated that the Soviet Union would shortly have the capacity to obliterate 100 of the key U.S. industries and thus win the Third World War (Fischer 1997: 22 et passim). Hence, global cooperation was necessary to achieve effective global control. It was against this background that president Eisenhower launched the –At-

¹ For an extensive discussion of the regime theory and its relation to different forms of cooperation in the export control field, see Ahlström (1999: 86 et passim). See also, for example, Mayer, Rittberger & Zürn (1993: 391-430) and Rosenau (1992: 1-29).
oms for Peace” program in December 1953 ushering in a new phase in the U.S. nuclear energy policy. The first step had now been taken towards creating a globally comprehensive control of nuclear energy. Eisenhower’s policy was aimed at achieving a broader cooperation with regard to research and development of nuclear power. From now on, transfer of nuclear material to other countries was allowed – also in the form of highly enriched uranium 239 and plutonium – provided the receiving country committed itself not to use the acquired nuclear material for nuclear weapons production. This new international cooperation led to the creation of the IAEA in 1957. This new supranational organisation had two main goals: (1) to promote global dissemination of civilian nuclear technology and know-how; and (2) to supervise and control this technology and know-how in order to prevent the proliferation of nuclear weapons. These two general goals can in their turn be divided into five basic IAEA objectives which are formulated in the current articles:

- to promote research, development, and application of peaceful nuclear energy (Article III.A.1);
- to provide materials, service, equipment, and facilities for such research, development, and application of nuclear energy “with due consideration for the needs of the under-developed areas of the world” (Article III.A.2);
- to promote the exchange of scientific and technical information (Article III.A.3);
- to create and apply safeguards in order to ensure that no nuclear related assistance or assets associated with the IAEA are used for military purposes (Article III.A.5);
- to establish and develop nuclear safety standards (Article III.A.6) (Fischer 1997: 35 et passim).

The work and objectives of the IAEA are both political and economic in nature, and it was therefore decided that the organization be put

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1 A journal which specifically deals with the historical and present analyses related to Atoms for Peace, see Atoms for Peace, an International Journal <http://www.atoms-for-peace.org/journal/ccomite.htm>.
under the authority of the UN General Assembly. Since some of the IAEA’s activities can have security policy consequences, it was further determined that the Security Council would receive reports concerning developments falling within its competence. This arrangement meant that the permanent members of the Security Council would be able to exercise their veto to block sanctions and other measures. It was precisely this state of affairs that the Baruch plan had sought to avert, but the Soviet Union had refused to accept it (Fischer 1997: 36).

The next important step towards the establishment of a global nuclear non-proliferation regime was taken in 1968 when the NPT was signed. The NPT came into force in 1970 and ratified in 2007 by 189 states.\(^1\) The NPT can be said to have three purposes:

1. To prevent the dissemination of nuclear weapons.
2. To promote nuclear disarmament.
3. To promote the peaceful use of nuclear energy.

The treaty consists of eleven articles. Article I prohibits nuclear states from transferring nuclear weapons and equipment that can be used for producing nuclear weapons to other parties. In addition, nuclear-weapons states are prohibited from helping, encouraging or inducing non-nuclear weapons states to develop nuclear-weapons capability. The NPT further prohibits, by Article II, the group of non-nuclear states from receiving or trying to produce nuclear weapons or nuclear devices of their own use. In accordance with Article III, the latter group is also under the obligation to sign a safeguards agreement with the IAEA regulating the surveillance and control of nuclear materials in cases where the state in question handles nuclear materials and equipment covered by the IAEA’s guidelines. The safeguards agreement gives the IAEA the right to verify that a state’s possession of nuclear materials corresponds with the amount it has declared. Furthermore, all states that have signed and ratified a safeguards agreement have committed themselves not to transfer nuclear material or nuclear related technological equipment to states that do not have binding control agreements with the IAEA.\(^2\)

\(^1\) The full text of the treaty see <www.iaea.org/Publications/Documents/Treaties/npt.html>.
Article IV concerns the right of the NPT signatory states to have access to nuclear materials for the purposes of conducting research or producing nuclear energy for civil use. As stated in item three above, the objective of the NPT is to promote peaceful development of nuclear energy for the NPT signatory states, and it is exactly this right to peaceful development of nuclear energy that Iran asserts today when other countries accuse Iran of acquiring nuclear capacity with the aim of developing nuclear weapons. Since civil and military development of nuclear capacity overlap largely, experts and researchers with knowledge of this issue maintain that Iran is taking advantage of the NPT treaty in order to buy and acquire nuclear materials and equipment in other ways for producing nuclear weapons. The NPT treaty is after all based on the principle that the signatory parties will voluntarily live up to their obligations, even though there is also a measure of control and supervision involved.

It is important to emphasize that the treaties and steering documents regulating the international commitments are formulated at a rather general level, and that the individual member states have a large responsibility for designing nationally functioning nuclear material control systems. Choices regarding legislative content and the forming of regulatory bodies, as well as the design of the control system at large, reflect different national traditions and perspectives. Of course, this development work is done in cooperation with the IAEA, and certain minimum levels of surveillance and control must be maintained. The system has also been criticized for not providing adequate protection. And the truth is that until the 1990s, the IAEA had a rather limited mandate for exercising control within the framework of the existing NPT. The reason was that it was only the nuclear materials and facilities that the states had declared possession of that could be subject to inspection. If a state was carrying out secret nuclear weapons production outside the areas that were subject to inspection (i.e., declared), the IAEA would have difficulty discovering this. When Iraq, which had signed the NPT treaty and was party to a safeguards agreement, managed to deceive the IAEA, it became clear that the control system did not fully work. The discoveries in Iraq prompted the UN Security Council to declare that proliferation of nuclear weapons constituted a threat to international peace and security and envisage measures to be taken based on IAEA reports of NPT treaty violations. The General Secretary, Hans Blix, spoke of creating a new safeguards system with “more teeth.” In February 1992, the work of improving the safeguards system began. The next year, North Korea
stopped the IAEA from carrying out necessary inspections. Investigations had suggested that the declarations that North Korea had supplied to the IAEA were incorrect. In the same year, South Africa that had also signed the NPT treaty, announced that it had once possessed nuclear weapons but that these had been dismantled. Coinciding with this announcement, South Africa decided to place its fissile material under the IAEA’s nuclear materials control.\(^1\) These events brought to the fore the need to strengthen the whole NPT regime, and led to the formation of a task force within the IAEA responsible for developing a more efficient system. Consequently, the Additional Protocol to the NPT was adopted in 1998. The Additional Protocol gives the IAEA expanded powers to carry out inspections (complementary access), and entails a stronger obligation on the part of states to provide the organization with information about ongoing and planned nuclear activities. Under the Additional Protocol, the whole nuclear fuel cycle from mining to final storage must be accounted for. Through this additional information, the IAEA is in a better position now to analyze and evaluate the purposes of the various nuclear technology programs of states (Hirsch 2004).

4. Export Control Regimes

Another important ingredient of the nuclear non-proliferation system is the so-called export control regimes. The two most important export control regimes in the nuclear domain are the Zangger Committee (ZC) and the Nuclear Suppliers Group (NSG). Both organizations were established for preventing illicit traffic of nuclear materials and technology, while also facilitating the peaceful use of nuclear energy).\(^2\)

The ZC was set up in 1971 at a meeting in Vienna in which representatives from 15 states had gathered to work out effective interpretations of the definitional problems involved in article III:2 of the NPT treaty. The problem was that article III:2 aimed at preventing the military use of nuclear materials and equipment while simultaneously allowing commercial trade in the same products for civil use. The ZC

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\(^1\) About the South African nuclear weapons history, see, for example, the web site of Nuclear Threat Initiative <http://www.nti.org/e_research/profiles/SAfrica/Nuclear/index.html>.

\(^2\) For an extensive review of export control and its current status, see Anthony, Åhlström & Fedchensko (2007).
arrangement attempts to solve this problem in two ways: Firstly, by working out and using definitions that go in line with the NPT treaty and its aims. Secondly, by working out a list of exact materials and equipment ("single-use" products) which require ("trigger") safeguards according to article III:2. This list is also called the "trigger list." The list is updated continuously according to need and is made public in the IAEA Information Series as INFCIRC/209/Rev.2. The demand for IAEA safeguards applies in principle to the facilities where nuclear materials and equipment are located. Other nuclear facilities in non-member states are not subject to controls.

The Zangger Committee guidelines represented a significant step forward towards a more comprehensive non-proliferation system. But despite this success a number of states emphasized the many shortcomings of the system. For this reason, another organization based on stricter requirements was formed in London in 1975 called the Nuclear Suppliers Group (NSG, a.k.a. the London Group). The NSG is not formally affiliated to the NPT and this fact has enabled it to strengthen its demands. The immediate cause for the establishment of the NSG related to India conducting its first nuclear weapons test in 1974. India had not signed the NPT (and still has not), but this event was considered a major setback to the intentions of the non-proliferation treaty. The plutonium in the Indian nuclear device came from a so-called CIRUS reactor that Canada had supplied. This was the first time that a nuclear weapons test had been carried out with nuclear materials obtained from a reactor that, according to the Indian-Canadian agreement, was to be used exclusively for peaceful purposes. Canada protested but to no avail. Several countries now questioned the effectiveness of the NPT regime. The treaty that was signed represented an extension of the "trigger" list drawn up by the ZC. In 1977, the confidential document "Guidelines for Nuclear Transfers" was produced for serving as a framework of rules for participant states. The following year, these guidelines were made public and handed over to the IAEA, which then published the "Guidelines for Nuclear Transfer" (GNL) as INFCIRC/254. Two other documents were included as appendices to the GNL, "Clarifications of items on the Trigger List" and "Criteria of levels of physical protection." The NSG represented a distinct tightening up of the requirements as compared to the guidelines that had been worked out by the ZC. In contrast to the ZC, the NSG "trigger list" applies to all non-nuclear weapons states (not only those that are members of the NPT).
5. Physical Protection, Transport Security and Illicit Trafficking

Physical protection means various measures aimed at preventing theft, sabotage and burglaries directed against facilities that use or store nuclear materials and technical equipment. This issue has always been regarded as very complex to be dealt with and regulated by means of one specific and detailed global control regime. Given that different states have varying nuclear infrastructures based on dissimilar domestic traditions and divergent threat pictures, the general opinion has been that each state must individually assume responsibility in matters of physical protection. The question of whether or not to create a more uniform and specific international regulatory framework has been discussed at great length by experts over the years. The IAEA has also drawn up general guidelines that member states are advised to follow to achieve a recommended security standard for physical protection. The first guidelines were published in 1972, and since then it has been revised a number of times. These guidelines (“Recommendations for the Physical Protection of Nuclear Material and Nuclear Facilities”)\(^1\) cover the physical protection of nuclear materials during use, storage and transportation, both nationally and internationally. They have been very influential and of great assistance to states in their development of national regulation systems according to Secretary General, Mohammed ElBaradei (IAEA 2005).

A major step was taken in 1980 when the IAEA passed a convention dealing with the management and regulation of transports of nuclear materials between states. In 1987, the Convention on the Physical Protection of Nuclear Material acquired legal force, signifying that the states that have signed the convention have committed themselves to conforming to the obligations contained in the articles of the convention. However, it was still felt that the individual states should be responsible for the nationally based physical protection, and as Article III makes clear, for taking effective measures aimed at protecting the nuclear materials in accordance with national legislation and the IAEA convention. The convention is a legally binding agreement but as already mentioned its application concerns transport between different states by land, sea, and air. Today, 145 states have

\(^1\) IAEA, INFCIRC/225/Rev. 4/Corr., July 8, 2005.
joined the convention (IAEA 2008). These states have promised not to export or import nuclear materials from another state that has not signed the convention, or that is unable to guarantee conforming to the conditions specified in the convention. The same conditions also apply to transit traffic of nuclear materials through the territory of signatory states, across international sea territory, and between states that have not signed this convention or are otherwise unable to assure that the stipulated demands of the convention can be met. On a general level, it can be said that the level of protection depends on the type of nuclear material transported (weapons-grade nuclear material requires the highest level of protection), as well as on the quantity.

An immediate consequence of the collapse of Soviet communism was that the new states formed on former Soviet territory lacked both the expertise and the financial resources to construct new structures of security and protection. Several incidents involving the illicit trafficking of nuclear materials and nuclear technology were reported and as a result, the IAEA, the European Union, the United States, and a number of other states took various measures to assist the newly formed states in creating more efficient nuclear infrastructure.

As part of this work, the IAEA designed a series of programs and control systems aimed at helping member states strengthen their systems for nuclear material control and physical protection. In this regard, the most important instrument described by the IAEA General Secretary, Mohammed El Baradei, “the first line of defence in the protection of nuclear materials” is the State System for Accountancy and Control (SSAC). By way of this system, states are able to acquire exact information about the existence and quantity of any nuclear material, and this is of great help in the work to uncover illegal activities. In connection with this system, the IAEA has designed and coordinated programs and plans for technical support with a view to improving the SSAC and the physical protection.

Although the convention has been viewed as a great success, many experts argue that the regime needs to be expanded. In recent years, some modification work has also been carried out that in addi-

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3 IAEA, Measures Against Illicit Trafficking in Nuclear Materials and Other Radioactive Sources [<www.iaea.org/About/Policy/GC/GC40/Documents/gc40-15.html>].
tion to international transports, includes national handling, storage and transportation of nuclear materials, and protection of nuclear technical facilities. However, it will take many years before it has been ratified by a sufficient number of states for it to come into force.

6. How to Develop the Global Non-Proliferation System

How can the global nuclear non-proliferation and nuclear security system be developed so that it will be in a position to manage radical expansion of nuclear power? The focus of the NPT regime on creating legal regulations concerning the use of fissile materials through various types of agreements, treaties, and control regimes, has been a successful strategy. At the same time, it is worth remembering that this system was founded during the Cold War era when the world was controlled by two major power blocs. These developments took place in a world in which the two superpowers, the United States and the Soviet Union, were able to closely monitor each other's movements through their intelligence agencies and in various types of negotiations. Each bloc also controlled its allies' defence plans and, therefore, was better able to control the development of nuclear weapons. Today, we live in a multipolar world that is less predictable. Hence, the assertion that global cooperation is even more important today. The disappearance of the Cold War blocs has led to new kinds of threats: terrorism and an increase in internal state conflicts in connection with the dissolution of the Soviet Union and the communist systems of Eastern Europe. After the terrorist attacks in the United States on September 11, 2001, there has also been an increasing fear that terrorists might be able to get hold of some form of weapon of mass destruction, including nuclear devices.¹

If the world is to manage the expansion of nuclear energy production without concomitant increase in the proliferation of nuclear weapons, we must have the courage to think along new lines. As a first step, we should ask ourselves the following question: what different means do we have at our disposal for preventing the spread of nuclear weapons? In addition, which of these means should we invest

¹As a consequence, the UN Security Council adopted a resolution (UNSC 1540) in 2004 aimed at preventing the spread of weapons of mass destruction and weapons carriers. This also includes their transfer to nongovernmental actors (terrorists). Among the measures decided upon was to have all UN member states institute efficient national export control.
more that will enable us to create a more effective global non-proliferation system in a multipolar world?

Broadly speaking, there are three different approaches to the task of preventing the spread of nuclear materials.1 The first approach involves legal and regulatory barriers aimed at preventing the transfer of nuclear materials and certain sensitive technologies. This is the approach of the NPT regime that has also been the most important and successful means of preventing the spread of nuclear weapons so far. This approach and some potential ways of strengthening it will be dealt with in more detail below. However, there are also other methods that have been tested in the past and are currently being widely discussed. The second approach is based on different kinds of multilateral arrangements regulating the development and/or ownership of technology and fissile materials. The main idea behind this type of arrangement is either to set up a globally controlled common bank of nuclear materials, or to promote cooperation between states to prevent any one actor from achieving exclusive control. Both these arrangements are aimed at reducing the risk of nuclear materials being diverted for military purposes. Various ideas and proposals of this nature have been presented over the years. The first scheme for setting up a bank of nuclear materials was the Baruch Plan that was mentioned earlier came to nothing shortly after WW II (Fischer 1997: 19 et passim). The “Atoms-for peace” plan that was put forward in 1953 also included a proposal to arrange for a common nuclear energy pool of nuclear materials and technology so that other states would be able to use and develop civilian nuclear energy (Fischer 1997: 9 et passim). The plans to establish a bank of fissile materials never materialized. To begin with, the Soviet Union was sceptical of the US plans. The Soviet foreign minister Molotov held that if Eisenhower’s idea of establishing a global pool of fissile materials were realized, there would be an increased risk of fissile materials proliferation since such a system was considered vulnerable and prone to manipulation. A new proposal was worked out in which the idea of a common safekeeping bank was abandoned in favour of a concept where the supranational organization would function as a clearinghouse for transactions involving nuclear materials. According to this proposal, the supranational authority, which became a reality in the creation of the IAEA in 1957, would neither own nor manage the fissile materials but instead act as a controller (Fischer 1997, p. 30 et passim). This idea was real-

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1 The three main approaches are discussed in Fedchenko (2006).
ized eleven years later with the signing of the NPT treaty and the safeguards agreements. The idea to create a bank could not be realized during the Cold War because the necessary political and historical preconditions were absent. The question today is whether this idea has come to age to be put into practice. Conditions are much more favourable in today’s world when the demand for energy intensifies by the day and states need to be more amenable to the idea of accepting greater control and less independence in exchange for gaining access to much-needed energy supplies. In the early years of nuclear energy, it was widely believed that most states would be able to develop their own nuclear infrastructures. In recent decades, it has become obvious that it is neither technically easy nor economically profitable for all states to do this. With a few exceptions, the aspiration for a highly independent nuclear energy development is absent today. If the choice is between growing more dependent on increasingly expensive and environmentally destructive fossil fuels and purchasing nuclear power produced out of country by other principals, then the latter alternative should be the more attractive option. There is also an existing organization that would have the competence and capacity to handle an international bank of nuclear materials, namely the IAEA.

Apart from the more ambitious idea of creating a common bank, there is the somewhat less stringent option of a multilateral arrangement where several states team up in a sort of joint use arrangement for the purpose of obtaining nuclear energy from a common nuclear energy system. It may be a question of three or four states owning a reactor and/or an enrichment facility together, and since several nations are cooperating in this way there is less risk of diversion because the different parties will monitor another and have a joint interest not breach-

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1 However, the 1956 IAEA Statute provides for the creation of an international nuclear fuel bank that could guarantee the supply of fuel to those states that need it but don’t want are not able to produce nuclear material themselves, see Fedchenko (2006): 691.

2 Iran claims to have this ambition. Suspicion has been directed against Iran’s investments in so-called heavy-water technology, which is considered both expensive and technologically old-fashioned. The country’s opting for a heavy-water reactor system suggests, in the eyes of some experts, that Iran aims to produce nuclear weapons. It is considered easier to produce weapons-grade fissile material with this technique, since it eliminates the need for highly enriched uranium that is subject to international control. The main counterargument put forward by the Iranian government is that it strives for independence in the area of nuclear energy since, absent such national self-sufficiency; there are no guarantees that Iran will have access to vitally needed energy supplies in the future.
ing the NPT regulations. There has been a tendency in recent years for the discussion on such arrangements. For example, Poland and the Baltic countries are currently discussing the possibilities for creating a common nuclear energy system. The fact that all four states are members of the European Union would facilitate such a solution, since they would be in a position to receive assistance from EURATOM (Ministry of Foreign Affairs of Latvia 2006).

At best, a state will be able to obtain nuclear power without even owning any nuclear facilities. From a non-proliferation perspective, it is more feasible to have an arrangement where a regional or international organization assumes the responsibility for nuclear energy production while a state merely buys the energy. Alternatively, another nation that is under international control and enjoying widespread respect for its non-proliferation commitment might produce and supply the energy. In these two scenarios, the state is not a potential nuclear weapons proliferator since the country neither owns nuclear facilities nor has the need to possess nuclear materials. In this context, Turkey is an interesting example. Russia is namely planning to build, own and run a nuclear power plant in Russia. Turkey has no nuclear infrastructure of its own, and why should it have to construct an entire nuclear power system from scratch at the cost of enormous resources in the form of capital and technical development?

This type of arrangement could be further developed involving a new division of responsibility between the IAEA and other supranational bodies since the IAEA cannot handle this task on its own. As a sole organization, the IAEA will not be able to handle the enormous work and responsibility involved in making possible an expansion of nuclear power development in a multipolar world, while at the same time supervising and inspecting all the reactors and facilities all over the world where fissile materials are being stored. One way of dealing with this matter would be to assign more responsibility to regional bodies, particularly concerning technical and scientific nuclear power development, and supervision and control. Therefore, we are back to the first approach mentioned above, involving legal and regulatory barriers aimed at preventing the transfer of nuclear materials and sensitive technology, and to the question of how this NPT regime may be strengthened and developed. If, for example, Euratom, the supervisory organization for the EU area, was given more resources and stronger legal tools for managing nuclear power research and development in

1 <http://www.panarmenian.net/eng/world/news/69440/>
Europe within the framework of multilateral joint use arrangements and other types of projects, the IAEA would instead be in a position to refine its role as the global supervisory authority. The IAEA would thus be able to drop its ambitions to assist states desiring to develop aided nuclear power programs and instead devote its resources to inspection work. In other words, the key task for the IAEA would consist of inspections and supervision on the one hand, and managing an international bank of nuclear materials on the other (if indeed the international community is prepared to take this step). In this way, the IAEA would cooperate more closely with the EU and Euratom than it currently does, although a certain amount of coordination between the parties has existed for a couple of years in inspection activities.

A third approach lately discussed by experts consists of investing in new proliferation-resistant nuclear fuel and technologies. The technology that exists today has been developed within the framework of a military paradigm, since nuclear power was originally used for military purposes. It was not until the 1960s that nuclear power came to be used for civilian power production. Nuclear technology is said to have – dual-use – in other words, equipment, facilities, and fissile fuel may be used both for civil and military purposes. Some experts are of the opinion that it might be possible to develop nuclear power systems where each step in the process of nuclear power production would be specifically designed to reduce or eliminate proliferation risks. The potentials for military use could then be reduced and subsequently phased out.¹ There are two main tracks within this approach. The first track consists of developing nuclear fuel that cannot be used for producing weapons-grade nuclear materials. The other track seeks to develop the technology itself and do away with the military side of dual use. This type of technology could constitute a way of avoiding the risk of states being tempted to use civil nuclear energy systems for producing weapons-grade fissile material. However, it is important to stress that even if this new technology were to be developed on a large scale, and it can be questioned if this is even possible, it would not suffice to make nuclear facilities absolutely proliferation proof (Fedchenko 2006: 703 et passim).

¹ For example, a concept is being developed under the auspices of the US Department of Energy called the Global Nuclear Energy Partnership, whose objective is to develop a new technology that is more resistant to proliferation than today’s nuclear power systems. See also the IAEA’s International Project on Innovative Nuclear Reactors and Fuel Cycles, which is also aimed at stimulating the growth of more proliferation-proof technologies <www.gnep.energy.gov/>.
These three approaches should be combined in different ways when a new and more effective non-proliferation system is designed, depending on what type of state is striving to get access nuclear power. For states belonging to stable regional structures that are well integrated in the NPT regime, like Sweden that forms part of the EU, there is no reason to change the policy of primarily following the first approach. In contrast, states situated in regions that are less stable from a security policy point of view should be integrated into a system where all three approaches are put to the fullest possible use in order to create as proliferation proof a system as is feasible. By combining these three approaches, in conjunction with a regime of global supervision and control in which regions assume greater responsibility, a more flexible system for nuclear non-proliferation can be constructed.

The greatest threat today is not, however, that additional states would develop proliferation of nuclear weapons but the threats from terrorist groups. The related concept of ‘nuclear terrorism’ which encompasses any activity or system that contributes to the protection of nuclear (highly enriched uranium and plutonium) and high hazard radioactive materials and associated expertise from unauthorized access, theft, diversion or sabotage by terrorists or other non-state actors, including, *inter alia*, guarding, physical protection, facility design, personnel vetting, information technology security, technical measures among other things. It also incorporates any activity or system that can contribute to detecting preparations for the perpetration of a nuclear terrorist event, and responding to and recovering from the after effects of such an event if prevention fails.

The definition and scope of nuclear security is also subject to change and poses a challenge to policy makers and practitioners. While in the past it was mainly confined to the physical protection of nuclear material (which still remains the core task), other issues have now been recognized as falling within the scope of nuclear security. Examples include combating the illicit trafficking of nuclear materials and blocking cyber attacks on industrial control systems at sensitive facilities across the nuclear fuel cycle, illustrated by the recent Stuxnet worm that targeted nuclear facilities in Iran.¹ Most recently, attention has begun to encompass the ‘intangibles’ of nuclear security, which remain relatively unexplored. These include issues related to knowledge and expertise (both explicit and tacit), as well as to securi-

ty culture. The _intangibles_ have been identified in the context of the Nuclear Security Summit process as a key issue that needs to be addressed in expanding the scope of the evolving nuclear security regime.

A regional, rather than a national or local level, approach is required because no individual country in the EU or Russia has the necessary level and range of competences to accomplish this in isolation. Moreover, a nuclear security system is only as strong as its weakest link. As such, it is important to engage with key user groups—including academic and research organisations, industry, as well as national and supranational governmental organisations—in as many EU countries and in Russia and Belarus as possible. These stakeholder communities are both inter-related and interdependent. For example, if universities do not produce skilled professionals, the nuclear industry cannot guarantee the delivery of high-quality and secure services, regulatory bodies cannot effectively oversee the minimization of the risk of theft or sabotage at nuclear facilities, and the public is put at an unnecessarily higher risk of being affected by a nuclear security _event_.

When more states opt for new or renewed nuclear power programmes to address energy security and climate change demands, one of the main challenges over the next decade will be to ensure that new nuclear facilities are integrated in robust plans for security from the outset and not just safety and safeguards against state-level proliferation. The regional and global expansion of nuclear power will also necessitate a massive expansion in existing nuclear workforces in the Baltic Sea Region and elsewhere and this will bring with it a significant training and education challenge for nuclear security. Responsibilities in these areas lie both with the State and with industry. European states, Russia and Belarus, however, are characterised by different security traditions, threat perceptions and views on how to deal with nuclear and other forms of terrorism. This creates a challenge in terms of the prioritisation of threats as well as the strategies for their mitigation. Preparing recovery strategies in the event of a nuclear terror event is also a key part of the challenge confronting policy makers. Central to this task will be determining the extent to which the Baltic Sea Region infrastructure and society can be made resilient, where resilience is defined as the _capacity_ to absorb disturbance and reorganize while undergoing change so as to still retain essentially the
same function, structure, identity and feedbacks\textsuperscript{1}. To date, resilience in the context of nuclear security is a field that has been relatively unexplored which the Fukushima accident has showed. The states around the Baltic Sea have to collaborate to coordinate the efforts to design a more resilient nuclear security system. The first step toward a coordination among Russia and EU states would be to gather experts to analyse the security threats and to make sure that national experts from all countries in the Baltic Sea Region are involved in this process. A second step would be to ensure that all states comply with international agreements. The UN resolution 1540 which is legally binding for all UN members and says that all member states have to provide “appropriate effective” nuclear security for all nuclear material and related technology, and to establish domestic controls to prevent the proliferation of nuclear, chemical and biological weapons. It also encourages enhanced international cooperation on such efforts, in accord with and promoting universal adherence to existing international non-proliferation treaties.”\textsuperscript{2} If the words “appropriate effective” mean anything, as Matthew Bunn argues in an article, “they ought to mean that security measures must be put in place that can effectively defeat the threats that terrorists and criminals in that country have shown they can pose”\textsuperscript{3} In this context, the nuclear industry has to be deeply involved in these efforts. It is not enough to have a cross-country cooperation based only on experts and national regulatory authorities in the Baltic Sea Region.\textsuperscript{4} The third step is to ensure that the states in the Baltic Sea Region are meeting world standards in the management and nuclear technology even if the international obligations do not require that. The physical protection convention and other regulations formulated by the IAEA have many weaknesses. For example, they are too generally formulated and leave much room for


\textsuperscript{2} 1540 Committee, UN http://www.un.org/sc/1540/

\textsuperscript{3} Matthew Bunn, “Incentives for Nuclear Security”, Conference Paper at the conference Incentives for Nuclear Security, Belfer Center, Harvard University, 30 August, 200,

\textsuperscript{4} Gretchen Hund and Amy Seward are arguing that the industry can be more effective in preventing spread of nuclear material and technology and be a strong ingredient in the efforts to enhance the nuclear security aspects if the non-proliferation regime, Gretchen Hund and Amy Seward, “Broadening Industry Governance to include Nonproliferation”, Pacific Northwest Center for Global Security Publication, 11 November 2008, http://cgs.pnnl.gov/pdfs/IndustryCorporateGovernance-Security_11-12-08Final.pdf
states to interpret how the physical protection should be designed and can lead to an insufficient systems.¹

7. Conclusion

Even if nuclear power may be the preferred source of energy in comparison to many other energy alternatives, this option can still be problematic. New reactors that are both safe and efficient need to be built and the problem of nuclear waste needs to be solved, or at least the risks of radioactive fallout have to be reduced. Moreover, a regional system has to be put in place which is able to prevent the illegal spread of nuclear material and technology. One way to achieve this is to promote multilateral arrangements regulating the development and/or ownership of technology and fissile materials. Another way could be to invest in new proliferation-resistant nuclear fuel and technologies. The technology that exists today has been developed within the framework of a military paradigm, since nuclear power was originally used for military purposes. These measures have first and foremost to be instituted on the global level, and in nuclear-proliferation prone regions of the world. In the Baltic Sea Region, however, the non-proliferation system is functioning well and the risks for states to develop nuclear weapons are low. An upgraded role for nuclear power around the Baltic Sea will rather have increased nuclear security risks in terms of nuclear terrorism and sabotage. Therefore should the focus in the Baltic Sea Region be on how to strengthen collaboration between the states in order to improve the protection of nuclear material and nuclear technology.

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¹ Ibid.


The Nord Stream Pipeline: Energy Security or Energy Dependence?

Maria Lagutina

Russia is EU’s largest neighbour. The EU is Russia‘s most important trading partner and source of foreign investment. Yet EU-Russia relations have often suffered from disputes over contentious issues such as trade quotas, rules on visas, the Kaliningrad enclave or human rights in Chechnya. Therefore, it is important for both sides to identify areas of common interest. Energy is one such imperative.

1. The Brief History of the EU-Russia Energy Dialogue

The idea of the EU-Russia Energy Dialogue appeared in 1986 when the prime minister of the Netherlands, Ruud Lubbers, suggested including USSR in the European energy space. Later, this suggestion was documented in the European Energy Charter in 1991. In 1997, the Russian Federation and the EU signed a Partnership and Cooperation Agreement (PCA) that has become a legal foundation for the EU-Russia Energy Dialogue. In 1999, the Memorandum of Understanding on industrial cooperation in the energy sector between the ministry for fuel and energy of the Russian Federation and the European Commission was signed. This document supported the initiative of industrial cooperation in the energy sector, but the parties did not undertake any concrete obligations. In October 2000, the EU and Russia agreed to start an Energy Dialogue dealing with issues such as security of supply, energy efficiency, infrastructure (e.g. pipelines), investments and trade. According to that summit’s communiqué, the purpose is to raise all issues of common interest relating to the [energy] sector, including the introduction of cooperation on energy saving, rationalization of production and transportation infrastructures, European in-
vestment possibilities, and relations between producer and consumer countries” (EU-Russia Summit 2000). The basic idea behind the dialogue is a simple balance of interests: the Russians need more European investment to develop their energy resources, while the Europeans need to secure long-term access to Russian oil and gas.

The dialogue involves regular meetings of experts and high-level political discussions during the annual EU-Russia summits. The last EU-Russia Summit took place in Khabarovsk (Russia) in May 2009. Subsequent summits have declared a number of infrastructure projects to be of “common interest”, including several projected gas and oil pipelines, and the interconnection of the two electricity networks. Consequently, the following are the common projects today:

1. Nord and South Stream gas pipelines.
2. Development of Shtokman natural gas field.
3. Unification of the Yamal-Europe gas pipeline.
4. Unification of oil pipeline system Drujba-Adria.
5. Unification of the EU-Russia electricity networks.

However, progress since 2000 has been mixed. There have been some notable successes, for example the establishment of a technology centre in Moscow in November 2002 and the start of several pilot projects for energy savings. But on many of the more important issues – pipelines, gas supply contracts, electricity sector restructuring and nuclear fuel supplies – the two sides continue to disagree. So, there are some problems of the EU-Russia energy cooperation development. For example, the European Union requires the Russian Federation to ratify the Energy Charter Treaty (ECT). Moscow continuously emphasizes that signing the treaty is detrimental to its national interest. Russia holds that this document has a unilateral character and takes into consideration only the -European interests.

2. EU and Russia: the Difference in Views on Energy Security

Energy security is one of the main issues in the European Union and the Baltic Sea region today. The rise in energy prices and increasing energy needs have revealed a dangerous tendency: some states aspire to pursue unilateral interests at the expense of other states. They form their foreign-policy strategies around the issue of energy security. There is a struggle for resources today where the energy component is
a part of the problem, in addition to foreign policy events and diplomatic relations. The problem of energy security is one of the most important issues for the developed countries because of the escalating international competition for resources. These states want to reduce their dependence on other countries, especially on states with unstable political regimes. The developed countries are finding energy security a growing concern. Although the need to conserve energy was realized by the end of the 1980s, the search for alternative energy sources have not had any considerable results. Furthermore, unilateral state actions do not lead to any effective decision. This is a peculiarity of energy security problem in the modern world (Vavilov). Even if there is no common interpretation of the term “energy security”, it is possible to define the following aspects of the modern energy security:

1. stability and assured reliability of energy supplies;
2. possibility to get necessary energy from different sources (countries, companies) and by the different pipelines, i.e. diversifying supply;
3. possibility to invest in production, processing and transportation;
4. guarantees of absence of political decisions in economic issues.

However, some states are inclined to define this in narrow terms. Europe and Russia interpret the issue of energy security in different ways. For example, the most of the EU countries regard energy security as energy independence, mostly energy independence from Russia (See, for example: Baran 2007: 131-144; Soros 2009; Lubinskas 2007). Accordingly, they are proposing the construction of gas pipelines bypassing Russia (for example, Nabucco), import of liquefied natural gas (LNG) from Algeria, Trinidad and Tobago, Nigeria, Qatar and the development of nuclear and alternative energies. The problem of energy security is also very topical for the Russian Federation. According to the Energy Strategy of Russia for the Period of up to 2020; “energy security is a safety state of country, citizens, society, nation and economy from threats for fuel and energy supply” (Government of Russia 2003). The event of January 2009 has shown that for Russia energy independence from transit countries with unstable political regimes and providing deliveries directly from Russia to Europe is important (see, for example Sapir 2006; Ankov 2009). Thus, Europe understands energy security as the security of only consumers whereas for Russia it is a balance between the interests of consumers and providers.
Russia has always been a reliable provider of natural gas to Europe. According to the general manager of Nord Stream AG Matias Warning, by 2025 European countries will have provided only 20% by own resources and imports constituting 80% (Praim-TASS 2009). The EU needs energy resources and Russia needs markets. Today, a quarter of gas supplies and more than half of oil imports to the 27 member states of the EU originate from Russia (Henson 2008). Both sides need stability in political decisions on economic issues. "In conditions of differently directed development the transition to a new principle, principle of mutuality, can become a signal breakthrough" (Romanova 2007). Thus, it is more appropriate to talk about "interdependency" rather than "energy dependence" between Russia and the EU. Energy security is a common concern: "European leaders are afraid of dependence from only one provider and their Russian colleagues do not have only one market" (Henson 2008). Probably, each side will try to avoid this situation, but it is easier to resolve all real problems of production and energy supplies by a joint effort. It is impossible to provide energy security for consumers without security for the providers. The long-term guarantee of energy security can be provided only by the balance between the interests and mutual responsibility of providers, consumers and transit countries.

The negotiations between the Russian President, Dmitry Medvedev, and Finnish President, Tarja Halonen, took place in Helsinki at the end of April 2009. In the course of the negotiations Russia was set to present the proposals for new rules of global energy cooperation. President Medvedev has offered to Europe a new energy agreement that means a new "Energy Balance" in Europe. Medvedev described the proposals as a "basic document which defines issues of cooperation in the sphere of energy, including proposals on a transit agreement" (Smolchenko 2009). The Russian President will distribute this document among the partners at the G8, the G20, and the immediate Russian neighbouring partners from the CIS. This document is necessary because of the many problems in energy cooperation between Russia and Europe. There are some undecided questions of energy security that "have not been resolved either by the Energy Charter or other documents" (Rosbalt 2009).

President Dmitry Medvedev outlined a plan which would transform the Energy Charter, a document which has never been ratified by Russia, "in order to meet the interests of energy producers and consumers" (Kupchinsky 2009). From Russia's point of view, the problem of the Energy Charter is that it does not follow the balance of interests
of all participants of gas-oil processes” - providers, consumers and transit countries. That is why the harmonization of these relationships has been taken as the principle of the new basic document”. It is also the fundamental component of the Russian interpretation of energy security: “Our task today is to maintain, or rather ensure for the future, the balance of producers of energy resources, transit states and consumers of energy resources,” stated Medvedev (Smolchenko 2009).

It is now known that the document consists of three sections. The first outlines the principles of international energy cooperation. The second section contains the elements of a transit agreement (an inalienable part of which will be a conflict resolution agreement). The third section provides a list of energy products, which include not only oil and has but nuclear fuel also, coal and electricity (ITAR-TASS 2009). The expansion of a list of energy products is a fundamental novelty of the proposed approach. In fact, these Russian initiatives are a proposal for a new full-fledged legal base for future energy cooperation. It is necessary that partnership in this sphere is based on clear, reliable and stable principles” (Interfax 2009).

This document was discussed during the last EU-Russia Summit in Khabarovsk in May 2009. For the longer-term, the EU and Russia are negotiating a New Agreement to replace the existing Partnership and Cooperation Agreement that should charter reinforced legally binding provisions for the whole range of EU-Russia relations; in the field of energy it should be based on a relationship of interdependence and mutual benefits, enshrining the principles of the Energy Charter Treaty. The Summit is an opportunity to take stock of the progress made on the New Agreement negotiations.

On the eve of this Summit, the EU Commission President, José Manuel Barroso, stated; “Russia and the EU are interdependent. The global financial and economic crisis stresses the need to develop the potential of our relationship, remove obstacles and coordinate our efforts. Regular and frank political dialogue is the right way to manage our relationship and it must prevail in all times, no matter how difficult the issues at stake are” (ISRIA 2009).

Thus, energy security is a common aim of the consumer and the provider while at the same time having different interests. The solution for the energy security problem can be found only if Russia and the EU achieve mutual confidence and collaboration in the sphere of energy cooperation.
3. Nord Stream: pro et contra

It is obvious that the creation of new supply routes of energy resources will secure “gas stability” for Europe, and will help to reduce all transit risks. From this point of view, it is worth considering one of the large-scale international projects in gas, the Nord Stream. According to its creators this project “will become a qualitatively new stage of cooperation with European gas consumers” (Yazev 2009).

The main idea behind the Nord Stream is to guarantee Europe’s energy security and the formation of reliable, strategic partnership between Russia and the EU in the Baltic Sea region. Russia is interested in the realization of this project — because such projects make up the backbone of European energy security and the availability of a larger number of gas supply routes only strengthens this security,” (Lobjakas 2009) said Russian President, Dmitry Medvedev, in Helsinki.

Nord Stream can meet nearly a quarter of Europe’s additional gas import needs. In addition, this project:
1. will provide natural gas directly from Russia to Europe by-passing traditional transit countries;
2. will provide the most reliable gas supplies for European consumers in the long-term;
3. will facilitate the establishing of a common European energy space.

Nord Stream is an important project for securing Europe’s energy needs, and concerns the mutual economic and political interests of many countries. In spite of its importance and necessity, the Nord Stream has opponents in Europe. Among them are: Poland, Lithuania, Estonia and Sweden. Their arguments are connected with a fear of total energy dependence on Russia. Consequently, myths about this project abound (Komarova, 2009).

Firstly, there is no sense to this project because of the world’s economic crisis and the slump in demand for resources. In spite of temporary slowdown of economic growth, the world economy needs stable and reliable supplies of energy resources. To overcome the crisis, there is a need not only to restart the former facilities but also to create the new ones that will increase the energy needs. Europe is consuming more natural gas every year and Nord Stream can supply 55 billion cubic meters a year. Without Nord Stream, the European Union would be unable to cover future gas demand. Nord Stream will meet
about 25% of the projected growth in Europe’s imports up to 2025, thereby making an important contribution to long-term security in supply (Nord Stream 2008).

Secondly, Europe in the future is planning to reduce gas deliveries and use alternative energy sources. The development of alternative energy is important for all countries in the world. Unfortunately, this is a long-term project. Renewable sources do not provide a complete alternative to traditional fuel. There are disadvantages of alternative energy that realistically need to be considered (Morien 2009). In this situation, the world sees natural gas as a “transition” from traditional fuel to the renewable sources in the future. Natural gas is the cleanest fossil fuel that produces less carbon dioxide per joule than either coal or oil (NaturalGas.org 2009).

Thirdly, a sea pipeline is a threat to the Baltic ecology. Sea pipelines are very popular, tested technologies of gas supplies, and the safest for environmental in the world. Offshore energy infrastructure plays a key role in supplying energy to Europe. Numerous offshore pipelines have been in operation in the North Sea since the 1970s. Over the years, international safety standards were devised to ensure the smooth functioning of such pipelines. Nord Stream is based on decades of experience in safe construction and operation of offshore pipelines. It will be an important addition to the existing energy infrastructure. Nord Stream is not unique. In addition to the pipeline from Vyborg to Greifswald, other offshore natural gas pipelines across the Baltic Sea exist or are under development. Nord Stream AG together with European environmental consultants from Great Britain, Denmark, Germany, Norway and Russia has researched all environmental implications. The Nord Stream’s trans-boundary environmental report (Espoo Report) is to be submitted to national authorities in the Baltic Sea states and published in early 2009. The document describes the environmental impact of the planned natural gas pipeline along the whole route. The report will form the basis for public consultations in each country. The process ensures that all countries are sufficiently informed on possible trans-boundary environmental impacts associated with the pipeline construction and operation (Nord Stream 2009).

The opposing countries of a sea pipeline in the Baltic region (for example, Poland) propose a land pipeline alternative (project “The Amber Road”). They say that it is cheaper than a sea pipeline, but a “sea pipeline” will cost almost 15% cheaper (Novik 2009).  

Fourthly, Nord Stream will increase European dependence on Russian Energy. Critics of Nord Stream say that Europe could become
dangerously dependent on Russian natural gas, particularly since Russia could face problems meeting a surge in domestic as well as foreign demand (Dempsey 2008). First, in the modern globalised world it is impossible to be completely independent. There are no fully self-sufficient states in the world. The world community recognizes a global competition as the basis for development of our civilization. When developed states supply their products to the world markets nobody talks about “commodity dependence”. In other words, each state is likely to be dependent in different spheres. There are some national interests in the economic sphere, but there are also some juridical principles for balancing these interests.

Nord Stream is a joint project of four major companies: OAO Gazprom, BASF/Wintershall Holding AG, E.ON Ruhrgas AG and N.V. Nederlandse Gasunie. Such a powerful consortium guarantees the best technology, security and corporate governance. The European Union has recognized Nord Stream as a priority energy project with the status of a Trans-European Network (TEN). It means that Nord Stream is a key project for the sustainability and security of supplies in Europe (Nord Stream 2009).

Evidently, the Russian and European economies are interdependent. The Russian Federation has one-third of the world’s gas reserves, and without it the world’s gas balance is not possible. That is why a long-term strategy of fostering Russian and European cooperation implies coordinated, mutually beneficial decision-making, development of equal partnership, and mutual responsibility.

Fifthly, the politicization of the Nord Stream project. There is no doubt that from the geopolitical point of view the construction of Nord Stream will stop all attempts to declare the Baltic Sea as an internal sea of the EU or NATO. These attempts are the reasons of many problems and difficulties with the Nord Stream. For Russia, this gas pipeline will become a new “window to Europe”. The Russian Federation is a full member of the Baltic community and the Russian desire to be an equal European partner is reasonable. Some European countries consider energy cooperation with Russia through policy and security problems. Meanwhile, all fears that Moscow will try to use gas and oil as an instrument of political pressure are absolutely exaggerated. If Kremlin has to “cut off the gas” supplies to Germany, France, Austria or Italy, then the situation must be such that is it extremely explosive and on the brink of a war, which is highly unlikely (Henson 2008). The Russian position on this is clearly an economic one, to generate profits.
Because of the January 2009 events when Ukraine cut off the European consumers from Russian gas, some European leaders have reconsidered their position regarding the Nord Stream. This project will reduce Europe’s dependence on transit countries with politically unstable regimes. President Dmitry Medvedev further stated in Helsinki that Nord Stream is profitable for all: “for Europe on the whole and for the individual countries of Europe”. He also noted that such projects secure the diversification of gas routes that will consequently promote energy security in region (Interfax 2009).

Let us hope that the economic rationale will prevail over opposing political stereotypes of Russia in Europe. Furthermore, once the Nord Stream gets under way, it will strengthen Russia’s direct economic relations with other European countries.

4. Bilateral or Multilateral Cooperation?

Nord Stream will pass through the economic zones of five states (Russia, Finland, Sweden, Denmark and Germany). The successful implementation of Nord Stream will set an example for efficient multilateral cooperation in the Baltic Sea region. The strategic union of Russia and the EU has to be established on a systematic formation of the Energy Union as a united endeavour that has to be based on joint ownership and management of production and distribution of the energy resources. In such a scenario, both the consumers who control sources and the producers who control distribution will have an equal stake in maintaining a fair market price for energy. The creation of the Russian-EU energy union will enhance Europe’s energy independence as well as its international position. (Urgens and Karaganov, 2008).

Meanwhile, some European leaders have criticized this cooperation. They believe that energy security is a national issue, and therefore each country should make its own decisions. This situation favours Russia, but after the gas conflict between Russia and Ukraine that affected some European countries, the number of supporters who uphold this view in the EU is declining. The European Union in fact lacks a common energy policy. Each country has own energy policy and as a result most of the negotiations in the energy sphere fail. Each country has own interests and energy security concerns: one country produces gas, the second one buys it, the third wants to diversify energy sources, and the fourth prefers natural gas because of its environ-
mental policy as natural gas is the cleanest fossil fuel etc. (Dmitrievskiy 2006).

Currently, bilateral cooperation is the most effective type of cooperation between Russia and Europe in this project. For example, Germany is the first country to cooperate with Russia as a partner. Economic rationality has prevailed over political stereotypes and fears in relation to Russia. Apparently, Russia has to intensify the cooperation with individual countries of the European Union.

5. Russia and Sweden: Problems and Prospects of the Cooperation in the Energy Sphere within the Nord Stream Project

The Nord Stream pipeline will pass through Sweden’s economic zone, and its construction is one of the most disputed issues between Stockholm and Moscow.

First, Sweden was against the Nord Stream idea right from its inception because of the environmental consequences of the project. “Sweden won’t support the construction of the gas pipeline Nord Stream along the Baltic Sea bottom until the project is finally approved by ecologists… We realize the importance of this project, but we can't violate our laws”, stated Swedish Environment Minister Andreas Carlgren in Brussels (European Dialogue 2009).

In addition to the ecological fears, Swedish military experts and several politicians including the former Swedish Minister for Defence, Mikael Odenberg, have stated that the pipeline is a security threat for Sweden and raised alarms over Russian espionage and military friction (Bakst 2006). More specifically, it concerns the pipeline company plans to build the Nord Stream service platform off the coast of the Swedish island of Gotland in the Baltic Sea. Swedish authorities worry that the platform could be used for clandestine surveillance over all military and civilian traffic in the Baltic Sea: “Sweden, for its part, remains unconvinced and fears that the pipeline could serve as a Trojan horse for Russian spies, posing a serious threat to Sweden's national security” (Bakst 2006). After the leaders of the Nord Stream AG Company recalled their application for the construction of the platform from the Swedish government in spring 2008, the issue has lost its relevance for Sweden (Pronikov 2009).
However, in spite of the general Swedish apprehension over the Nord Stream, the dispute between Russia and Sweden concerning the construction Nord Stream gas pipeline is now reduced to only one issue. The issue now focuses on the project’s potential environmental impact on the sensitive flora and fauna of the Baltic Sea. The leaders of the Nord Stream expect to receive the Swedish permission for the construction Nord Stream in the near future. According to some Russian experts, the attitude of Stockholm toward this project has changed after the January 2009 crisis: “one of the most important consequences of this crisis is a Swedish approval of the Nord Stream project” (Chichkin 2009). Russia hopes that once construction begins the Swedish authorities will realize the obvious advantages of this pipeline for the Swedish industry and daily needs. According to these experts, with Sweden’s participation, the Nord Stream project will be realized in a short space of time by 2011-2012 (Chichkin 2009); by which time an additional 120-km extension of this gas pipeline toward Sweden will have been laid (within the district of Eland island).

Therefore, we can assume today that Russia and Sweden have very good prospects for energy cooperation. In fact, with the exception of the ecologic issue, there are not many irresolvable problems between our countries. According to the European mass media, the main source of all other Swedish fears over Russia and Russian projects is that – Russia is moving away from democracy … and is instead reverting to Cold War authoritarianism” (Bakst 2006). But it is purely political, and as have clearly argued the Nord Stream is an exclusively commercial project. That is why we anticipate that the cooperation between Russia and Sweden on the Nord Stream project is possible. The environmental aspect can become the basis for the effective and mutually advantageous economic relations between Sweden and Russia. Sweden has achieved much in terms of environmental protection and effective environment policy. That is why it would be mutually beneficial to exchange experiences on this issue. Furthermore, Sweden can become a consultant on environment issues of the Nord Stream.

In addition, the development of an energy and transport infrastructure within the framework of the Nord Stream project is also possible culminating into the formation of the united energy space in the Baltic Sea region. Russia has the political will and corresponding institutions to achieve this cooperation – The Council of the Baltic Sea States (CBSS), Barents Euro-Arctic Council (BEAC), and also cooperation within the framework of the Northern Dimension EU-program
that transforms into the partnership of the equal policy between the EU and Russia in Northern Europe.

6. Summary

The main idea of the Nord Stream project is to ensure energy security for all participants of energy cooperation, and building stable relationships between Russian and Europe. In this context, it is more appropriate to talk about the “interdependency” between Russia and the EU in the energy sphere and not about energy dependency.

Presently, bilateral cooperation is the most effective type of cooperation between Russia and Europe in the Nord Stream project. That is why Russia has to intensify cooperation with individual countries of the European Union. Therefore, Russia and Sweden have very good prospects for energy cooperation today, especially on environmental issues.

At the same time, the EU-Russia cooperation has some serious problems. Firstly, there are some apprehensions between the sides over mutual fears and stereotyping from the past. For example, some of the European countries regard modern Russia as USSR. Undoubtedly, such perceptions cannot promote better understanding. Secondly, the big problem is a lack of complete and objective information in the mass media about the actions and expectancies of partners. Both sides have to give greater attention to mutual information sharing in energy cooperation. Finally, there are no common “rules of the game” between Russia and Europe in this sphere. The necessity for such “rules” is obvious and relevant.

Today, it is impossible to exclude Russia from the energy dialogue. If relationships are based on the principles of equality and mutual respect, then the danger of a new energy crisis will be less of a threat to Europe. To achieve this, European countries should overcome internal discord. Tentatively speaking, efficient multilateral cooperation is unlikely as the Nord Stream case illustrates. Nobody can play the role of a big brother, because such a role is detrimental to both sides. As I have consistently argued in this paper, interdependency will strengthen business cooperation and friendship between to regions and within the Baltic Sea region. Eventually, the political component will fade into the background even as economic relations
intensify to become the most acceptable and reasonable way to the formation of a new common European Energy Strategy.

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The Problem of Efficiency of Northern Dimension Programme in the Framework of Russia-EU Relations

Nataliya Markushina

In autumn 1997, the EU Northern Dimension (ND) concept was for the first time announced by the Finnish government led by Paavo Lipponen at the conference in Rovaniemi. The key points of this concept were to develop cooperation between the EU and Russia, as well as with the Baltic States and Poland, focusing on Northwestern regions of Russia. The papers presented by the Finnish representatives were mostly of a conceptual character. However, at that point of time it was clear that they were oriented toward Russian natural resources. Special attention was given to the development of oil and mineral deposits, forests, etc. This was linked to the development of transport, infrastructure, environmental protection and nuclear security.

The key objective of the ND policy was to establish stability and positive interdependence and security in the Baltic, Northern European and Arctic regions, achieved via regional cooperation (Council of the European Union 2000: II: 7). The EU concept of ND aimed at providing the EU with additional tools through coordination, complementing programs and policy elements that already exist within the EU and member-states. It was also thought to contribute to the improvement of regional cooperation in Northern Europe (Council of the European Union 2000: I: 1).

The development of the initial ideas of ND is contingent on changes taking place within Europe in the recent decade from the geopolitical perspective (in the Arctic, the Northern European and Baltic regions). The fact that Russia takes part in this project significantly changes the role of this region of Europe in the political and economic map of the continent. New perspectives for regional and interregional cooperation emerge.
ND covers quite a vast territory: from Iceland to North-West of Russia; and from Norway, Barrens and Kara Seas on the North to the southern shore of the Baltic Sea. The Russian Federation, Norway and Iceland, which are not members of the EU, do also participate in ND (Beloborodova 2000: 163-166). We should not forget that after the ND framework document was signed in 2006, Russia, the EU, Norway and Iceland became equal partners.

Therefore, it is important to analyze the complicated process of the EU-Russian cooperation, because it shows the different positions and judgement of the two partners in the energy sphere.

As for the European Union, the project of Energy Policy for Europe was discussed already on March 23-24, 2006, at the EU summit in Brussels (Council of the European Union 2006). In the same year, the main executive body of the EU approved the project of new energy policy, the so-called –Green Paper” (Prime-TASS 2006). The key objective of the strategy is to create a common and competitive energy market, secure the EU countries from shocks in the oil and gas markets, as well as signing the special agreement with Russia. The EU needed a control authority which was to monitor the demand and supply on the energy market and forecast the risk of the deficit. This is necessary as Europe cannot afford to pursue 27 separate energy policies (Council of the European Union 2006). The common strategy will comprise of 6 priorities including building common European energy and gas markets, securing EU members from shocks on the global oil and gas market, widespread use of renewables and better energy efficiency.

J. M. Barroso then stated that the share of imported energy will grow from 50% as of today to 70% by 2030 if the EU does not reduce energy consumption in general and use renewables. He mentioned: –the European energy reserves keep depleting. In such conditions we need better coordinated and circumspect common European energy policy” (Council of the European Union 2006).

In winter 2008-2009, a series of events made Europe confront the challenge of freezing and forced the European Commission to reconsider the situation. Undoubtedly, the gas conflict between Russia and the Ukraine was the key to accelerate the work on the –Green Paper”. The perplexity of the European leaders demonstrated the lack of a common energy strategy (Commission of the European Communities 2006). The outcome of this conflict can be captured in the statement of Austrian ambassador, Martin Vucovic: –there is an urgent need to ratify European Energy Charter, where the 7th chapter directly...
prohibits the halt in energy supplies… We are not going to investigate the chaos in the contracts between the Ukraine and Russia, but the important thing is that we did not get the gas in January and it was a bad surprise for us‖ (Harding 2007).

As the author of this paper argues, it is the common political approach that will allow the EU to carry out favourable deals with suppliers. At the same time, it is difficult to state whether there is a common understanding of such initiatives within the European Union. Some countries including Germany, France, Spain and Italy prefer to independently choose their suppliers. This proves that it is still too early to talk about the common energy policy and about progress in common understanding on the matter. We can see the opposite: some countries use energy policy to take the advantage of their geographical location and well-established economic links. Other countries do not benefit by following someone else’s rules and are searching for other solutions – often weakly determined by economic interests and directly related to politics. This creates a fertile ground for phobias and perceptions of enemies. In this regard, it is not surprising that Russia appears prominently in such strategies. Today, gas imported from Russia meets half of Europe’s demand for energy and this share tends to increase. That is why Russia stands for a secure and politically independent energy market. In this regard, J. M. Barroso mentioned; “I suppose we depend on each other… We certainly need the energy supplied by Russia, e.g. gas. I think that it is in Russian interest to have stable market area and stable relations with such a significant consumer as European Union” (Prime-TASS 2006). Interdependence between the EU and Russia will grow. It will not be easy for Russia to divert its energy flows away from Europe to Asian countries.

However, it can be concluded that there is a strong opposition to energy unification among some of the EU member states. These opponents suppose that the energy security issue and search of energy suppliers should remain under supervision of national governments because of its link to national security. Such a position is of some benefit for Russia. However, the recent gas conflicts with the Ukraine affected several European countries that experienced disruptions in the gas supplies, and the number of countries supporting this approach is in decline. However, Russia should not fear the common energy strategy as it cannot be excluded from the energy dialogue, even if there are some forces opposing this. If we succeed to build a relationship based on the principle of equality and respect of each other’s interests,
the risk of energy crisis will be reduced. It must be emphasized that the EU needs to overcome its internal discord in the energy sphere.

There are positive trends in the Russian economy. With its enormous resource potential, the country is on the way of becoming a global energy power in the coming decades. In March 2009, Ilya Klebanov the plenipotentiary of the president of the Russian Federation in the Northwest Federal district visited Stockholm. He specifically mentioned the positive meeting with the deputy prime minister, minister for industry and energy, Maud Olofsson, who mentioned that Russia is one of Sweden’s key priorities. One must also mention the positive attitude of Swedish investors in Russian energy projects. According to Klebanov, businesses did not hide their interests in buying Russian energy. The issue of Russian investments into Swedish economy was also discussed, – it is not yet a concrete offer but they told they were ready to investments from Russia. The Swedish side suggested to consider together what sectors should we speak about”, Klebanov claimed (Embassy of the Russian Federation in Sweden 2009).

Nevertheless, it is now recognized that the Russian energy industry is facing new challenges. The question of who will be Russia’s real partner is no less relevant. Certainly, there are still disagreements within the cooperation between Russia and the EU that also feature in energy issues. Relations between Russia and the EU are not simple and their development is characterized by significant changes. The main challenge for the Russian policy is to primarily keep its interests while simultaneously acting in the international arena, and trying to combine them with international obligations. Lately, the issue of how to use our energy resources in a most efficient way also reflects this dilemma. It is clear that such a situation is not widely supported in the West. For example, the former Russian ambassador to the US, Yuri Ushakov, claims: –Statements accusing Russia in using its energy resources for political pressure on its neighbour. Some even say that Moscow applies its huge energy resources as –new weapon” to intimidate other countries and forces them to the agreement” (Ushakov 2006).

European policy keeps trying to influence international organizations and partner communities and tends to impose its norms and perceptions as universal in world politics. The ultimate goal of EU policy toward Russia is to promote democracy, improve human rights, and civil liberties. However, Russia’s views and plans on its own development are seen by the majority of European observers as quite the
opposite (Karaganov 2004). The new members of the EU who mostly have traditional claims towards Russia complicate the situation. We should take into consideration that the ghost of the totalitarian past haunts the country in spite of all the established business links, contributing to the another view of recent developments in Russia (Markushina 2005). According to a Berlin-online newspaper on the Moscow summit of May 10th 2005, both European and Russian representatives kept emphasizing the achievements on the way towards “strategic partnership”. However, the truth is that convergence has become more difficult in recent years. Cooperation can take place where it is economically viable and it always stumbles when real trust is needed (Newsru.com 2005). According to Klebanov, something similar can be noticed in Sweden’s attitude towards Russia: “The negotiations showed that traditional suspicion is present in Swedish attitude towards Russia” (Embassy of the Russian Federation in Sweden 2009). But we should also recognize some significant changes that took place in recent years. Statistics on trade and energy is a good evidence of growing interdependence between the two states.

Even after signing four road maps on May 10th 2005, the optimism was quickly replaced by disappointment. As Head of Committee for External Affairs of State, Duma Konstantin Kosachev, mentioned: “on EU-Russia summit in London in October we acknowledged progress in implementation of the Road maps, although not so many practical decisions are taken that really reflect the interests of the Russian people” (RIA Novosti 2006). According to the prime minister of Luxembourg, Jean-Claude Juncker, “the problems existing in the implementation of the Road maps are mostly of a psychological nature” (AK&M Online News 2005). Western media together and analysts constantly exacerbate the situation by asking “how should the world and specifically the EU build up the relations with Russia which keeps getting more aggressive?” (Munchau 2006).

On the other hand, a whole range of factors, including the Ukrainian issue, made the EU recognize the irrationality of the present situation. As a result, the politicians have turned their attention to already established spheres of cooperation, such as the ND Programme. In order to succeed, the state and big international organizations should follow well-developed and monitored interaction schemes that will foster international contacts. It is worth mentioning that in the Road map on common economic space approved on the EU-Russia summit in Moscow in May 2005, it was stated that the implementation of the Road map will rely on the priorities jointly defined within the
regional organizations and initiatives, e.g. Council of the Baltic Sea States and the ND (Russian Foreign Ministry 2005).

Why specifically the ND? In a context of the operating structure, the EU the ND policy is characterized by the presence of a system of interconnected implementation programs in those directions that yield maximum value added for the EU. It primarily concerns the power sector. Integration of energy networks of North European and Baltic regions, and also Northwest region of the Russian Federation into a common energy system of the EU is one of the most important questions for the EU.

Energy resources of Northern Europe and Northwest Russia are considered as a significant source of energy supply for the EU. From the very beginning, the EU offered financing the regional programmes on the matter (Council of the European Union 2000: III: 27-35). The interests of the EU did not change, so why should the Northern Dimension not become a tool for building up the relations in this sphere?

Following the Northern Dimension Policy Framework Document that was approved on November 24, 2006, in paragraph 3, point 14: –The Northern Dimension will be a regional expression of the Common Spaces EU/Russia. Russia and the European Union will make the Northern Dimension policy a crosscutting topic and a tool where appropriate for the implementation of the road maps for the Common Spaces with full participation of Iceland and Norway in matters relevant to ND. The ND policy will continue to address some objectives of specific relevance in the North, i.e. its fragile environment, indigenous peoples’ issues, cultural diversity, health and social well-being, etc.” (President of Russia 2005).

ND fits into wider framework of partnership between Russia and the EU. In this regard, negotiating practical suggestions on priority projects and control over their implementation is emphasized. The priorities include economy, trade, investment, business interaction, energy, transport, communications, research, education, social security and healthcare, environmental protection, nuclear security, and contacts between people. However, they are put into the framework of four roadmaps aimed at four common spaces of EU and Russia. Thus, the ND becomes a tool of four common spaces as this policy is well informed about all the fields covered and many projects have been conducted within ND in the field of economy, environmental protection and others. Mechanisms of ND policy can be used for the implementation of roadmaps.
The new ND policy clears up the priorities of similar programmes. It focuses on the development of North-West Russia with the aim of implementing the idea of four common spaces in this region.

The important practical components of the ND programme are the ND Environmental Partnership (NDEP), and the ND Partnership in Health and Social Well-Being (NDPHS). Programme participants have also considered establishing partnerships in new priority spheres – transport and energy. In this regard, the key topic of the ND Parliamentarian meeting was discussion the implementation of the ND general goals, and achieving concrete political results. The New Framework document on ND policy proposes to include the Baltic Sea region and Barents Sea region into the list of priority regions for implementation of the policy, in addition to Kaliningrad region and Arctic. Therefore, the ND goal implementation in the Arctic and the Baltic Sea region has become a significant topic in discussions at the Conference.

Geographical borders of ND from Russian side cover: North-European and North-West regions, namely; the Republic of Karelia, Republic of Komi, Archangelsk, Leningrad, Pskov, Novgorod, Vologda and Kaliningrad regions, St. Petersburg and the Nenets Autonomous District. The territories falling within the EU-ND area include Iceland in the West to the Russian North-West in the East, and from the Norwegian, Barents and Kara Seas in the North to the southern shore of the Baltic Sea. (For the map of ND area see appendix 1) (Aleksandrov 2005: 144). The ND geographical space mentioned above covers the area with more than 60 million people including more than 15 million in North-West Russia. The total area is more than 3 million square kilometres, out of which North-West Russia covers more than half the area. The Russian North is the country’s commodity treasury consisting 70 to 90% of known reserves of oil, gas, apatite, bauxite, nickel, lead, gold, diamonds and other minerals (Spiridonov 1999: 10). The border regions of Kaliningrad, Leningrad, Murmansk regions, the city of St. Petersburg and the Republic of Karelia enjoy some advantages in cooperating with the EU within the ND framework. Because of their location and transit potential, these regions receive privileged financing within the ND framework programmes aiming to develop cross-border projects. At the same time, the EU to some extent allocates part of the finances to the regions mentioned above.
The allocation of special funds to the energy projects among north-west regions should preferably be concentrated in Barents region, the Nenets Autonomous District, and the Republic of Komi. Implementation of the ND programme will meet the interests of Russian regions if the projects aim at comprehensive development of the North-West. It is worth mentioning that in spite of intensifying international contacts, the regions willingly submit to control from Moscow. This demonstrates a state-led approach, expecting the centre to cooperate, provide concrete aid, and approve federal laws and programmes (Aleksandrov 2005: 144-145). Nevertheless, the development of energy infrastructure is not the least among the priority spheres to promote regional cooperation with the help of ND.

One of the key priorities of ND in the sphere of environmental protection is the issue of nuclear security and nuclear waste management. The northwestern region of Russia (with its nuclear power plants and nuclear waste storages on the Kola Peninsula and St. Petersburg) is identified as the problematic area together with Lithuania (Ignalina nuclear power station). At the Stavanger conference (Norway) in December 1998, it was emphasized that solving these issues is a matter of a common interest and should proceed based on multilateral cooperation.

The annual reports published by the European Commission help understand better and monitor the activities of the ND, as well as to find out positive and negative aspects. More specifically, we should mention the following among the negative things: the cross-border projects with smaller funds had little influence on the economy of North-West Russia as initially expected. While the Russian regions generally assess the activities of Northern Dimension as positive, but regard Russia as an object rather than an actor of ND. Some experts suggest that the ND over time has shifted from a large-scale action programme to an ineffective and mostly a proclamation programme primarily aimed at solving environmental problems in the region. The reason for slowing down of the ND idea was lack of funding for the implementation of concrete cooperation projects. More than 200 projects were implemented in St. Petersburg since 1992 amounting to more than 150 million dollars within the TACIS programme framework, which is the main financial tool of the Northern Dimension. Some 18% of the funding was allocated for energy sphere projects (Markushina 2004).

The ND planned to elaborate and implement the North-European gas pipeline project through Scandinavia to tap the Shtok-
man gas field. ND was expected to play its role in creating the Baltic oil pipe system (BOPS) to include oil ports in Primorsk and Porvoo (Finland), and BALTEL – common electricity market in the Baltic region. Extensive activities in the sphere of environmental protection were also planned. However, the ND did not achieve the expectations. In the key field of energy cooperation the projects were either not implemented at all (Nord-stream case), or Russia was excluded (BALTEL), or implemented beyond the frameworks of Northern Dimension (Baltic oil pipeline system).

Nevertheless, there were certain achievements also: e.g. some projects in telecommunications and information technologies. In the field of environment, projects in St Petersburg and Kaliningrad were implemented. For example, the southeastern sewage plant was built in St Petersburg. Nevertheless, the overall results are rather discouraging, especially taking into consideration the fact that the Russian side alone has introduced more than 200 project proposals.

Preparation of a new ND policy demanded lots of time and effort. Long before the framework document was accepted in 2005, the European Commission took the initiative and raised the question on ND’s future a year prior to the implementation of the second Action plan. The preparation of the new policy involved the participation of not only the EU members, but also Russia, Norway, Iceland and regional organizations. Essentially, most of the states responded positively towards the EU initiative and started preparing common discussion topics for the ministerial meeting held in November 2006. By 2007, the EU member states planned to build up a new action plan for 2007–2010, which did not materialize because of the EU-Russia summit in Helsinki (November 24, 2006) where the new Northern Dimension concept was presented. Consequently, the Framework document was replaced by the Action Plan approved at the ND meeting in Helsinki by Russia, the EU, Norway and Iceland that had entered on January 1st 2007. The new ND concept constitutes a stable and constant basis for the EU policy.

The key difference between "old" and "new" Northern Dimension is the following: earlier the Northern Dimension was a policy of the European Union, now it has become a common policy of the EU, Russia, Norway and Iceland. New programmes of cooperation will be launched in the fields of transport and logistics, for example. Moreover, both Russia and its Western counterparts believe that cooperation in the energy sphere is likely to intensify. This is an excellent opportunity for both parties: for Russia to strengthen its position in the Bal-
tic, Barents and Arctic regions, and for Europe to conduct a more balanced policy towards Russia.

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Regional Cooperation in the North, the South and the East of Europe: a Puzzle to Be Solved

Tiziana Melchiorre

1. Introduction

The early 1990s events have brought about deep changes in the reorganization of international relations. The end of the bipolar system had in fact a huge impact on the way the nation-states perceived their place in the international context. Christopher Browning argues that "the end of the Cold War heralded in a belief that territorial and psychological borders could be transcended and eroded and that 'Europe' could be reconstructed in much more open and diverse ways" (Browning 2002: 2). In fact, the necessity to rethink the relations between the states in the context of the new geopolitical situation originating with the end of the Cold War was clear. The most beneficial way to reach this aim was to regionalize old threats and challenges (e.g. organized crime, illegal migration, smuggling of drugs and weapons, and trafficking in human beings), as well as the strategies and the policies efficiently act within the new international order. Consequently, regional cooperation emerged as an important means of securing stability, dealing with the problems of economic transition and promoting closer ties with other existing European economic and security structures" (Celac & Manoli 2006: 193). A very similar concept is expressed by Mustafa Aydin who states that: "regionalization is an instrument of regional and global security and stability" (Aydin 2005: 57), which can counteract the establishment of new dividing lines by creating a multi-layered trans-boundary, cooperative networks, emphasising the concept of indivisibility of security”. He also argues that by dealing with non-military issues in political, economic and environmental fields, as well as the social and cultural topics, regional organizations build a sense of common interest and, to a certain ex-
tent, a shared identity” (Aydin 2005: 58). In effect, regional organizations play a crucial role in the region-building process, because they provide an excellent opportunity for co-operating by increasing the level of commitment of regional actors in the construction of an area characterized by close relations.

The phenomenon of regional cooperation and the region-building process is the subject of this study, which tries to analyze by focusing on three areas, viz. the Baltic Sea region, the Black Sea area and the Balkans. The aim is to fill the gap in comparative studies on regional cooperation in the three areas considered here. Although there is a lot written about the cooperation in each region, a comparative and methodologically organised analysis of the cooperation in these three regional systems is still missing.

This article analyzes the two phenomena mentioned above by focusing on the identity issue, which is a crucial factor in the region-building process and for the institutional aspect of regional cooperation. To this end, the following most important institutions in the three areas have been chosen for each region: the Council of the Baltic Sea States (CBSS)¹ for the Baltic Sea region, the Black Sea Economic Cooperation (BSEC)² for the Black Sea area, and the Central European Initiative (CEI)³ for the Balkans.

This study is divided in three parts. The first analyzes the main elements of the phenomenon of regional cooperation and of the region-building process in order to provide a general framework within which the two phenomena can be inserted to understanding better their similarities and differences in the three areas. The second part focuses on the region-building process in the three regions where the identity issue acquires a particular significance in relations within the region as a whole. The third part analyzes regional cooperation in the three areas by emphasizing the institutionalization process as well as the crucial role played by external actors such as the European Union (EU) and the North Atlantic Treaty Organization (NATO), which greatly influence cooperation and geo-politics in the three regions.

¹ The member states of the CBSS are: Denmark, Estonia, Finland, Germany, Iceland, Latvia, Lithuania, Norway, Poland, Russia, Sweden, the European Commission <http://www.cbss.org/>.
² The member states of the BSEC are: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Serbia, Turkey, and Ukraine <http://www.bsec-organization.org/member/Pages/member.aspx>.
³ The member states of the CEI are: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Hungary, Italy, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia and Ukraine. <http://www.ceinet.org/main.php?pageID=17>.
2. What is Regional Cooperation?

The expression ‘regional cooperation’ refers to a system characterised by strong relations between the actors of a determined geographical area sharing the same interests in one or more sectors like trade, environment, culture, etc. The actors can be states or local bodies facilitating cooperation at the governmental level or at a lower level, for example between the towns and/or regions of different countries.

In this context, the concept of ‘region’ acquires great importance to understand the significance of ‘regional cooperation’. However, there is no unanimous and consensual definition of ‘region’ as researchers consider different elements when they try to give a convincing explanation of what a region is. In fact, scholars usually focus on one or more of the following factors depending on the aspect they decide to privilege: a) geography; b) historical similarities and cultural affinities; c) trade and economic cooperation; d) security.

Nevertheless, a large number of scholars use the geographic criterion to define the concept of region as ‘geographic proximity is the first and most obvious criterion of ‘regionness’’ (Pavliuk & Klympush-Tsintsadze 2004: 6). For example, Joseph Nye states that a region is ‘a limited number of states linked together by a geographical relationship” (Fawsett & Hurrell 1995: 11).

The geographical factor is strictly connected to the notion of ‘territory’, which is a ‘bounded space’ characterized by four dimensions: 1) social, because people inhabit it; 2) political, because people fight to preserve or enlarge it; 3) cultural, because it contains collective memories; 4) cognitive, because its capacity to subjectify cultural, political and social boundaries makes territory the core of both public and private identity projects” (Paasi 2009: 35, 121-146, citation is from p. 124).

 Territories are the spaces composing the contemporary world. Regions are also spaces but, as Anssi Paasi points out, ‘all territories are regions but not all regions are territories’ The difference, according to Paasi, is that territories have a very distinguishing characteristic, namely the fact that the boundaries of the territory and the resources it contains are under the control of people which is the real expression of territoriality (Paasi 2009: 24). Consequently, it is easy to define a territory. On the contrary, a region is a much more complex concept because it does not always contain clear boundaries. This has very important political, economic and social implications. Scholars and poli-
ticians very often express contradictory opinions about the 'space' constituting a region. This is why other factors are usually used to define regions, which are no less significant than mere geographic proximity. Many argue that studying regionalism and regionalization means taking into consideration all the elements influencing the emergence of a region. This means that bearing in mind only one factor is not sufficient. Instead, the four elements are complementary to each other because all of them are necessary to build a complete picture of a region.

Therefore, the construction of a region can occur for different reasons; strengthening the security and economic cooperation among the countries involved are perhaps the most important ones. This will be illustrated more widely later. What is important to stress here is that the region-making process is very complex; because it is based on the specific geopolitical, economic and historical interests of the countries involved creating a strong interdependence among them. Barry Buzan for example states that ‘defining who is inside and outside a region is an essentially political process involving systemic constraints, the goals of political elites, domestic institutions, international organizations, and trans-border communities, none of which may have exactly the same vision of what constitutes the legitimate boundaries of the region in question’ (King 2004: 16).

The interdependence among the countries involved can become so deep that, as Oleksandr Pavliuk points out, some scholars argue; ‘what happens to one part or state of the region has more profound implications for other parts or states than similar developments outside the region have’. Barry Buzan defines a region as ‘a group of states whose primary security concerns link together sufficiently closely that their national securities cannot realistically be considered apart from one another’. In addition, ‘this security interdependence results in a region becoming a _security complex’’ (Pavliuk & Klympush-Tsintsadze 2004: 6).

The security element is also stressed by Karl Deutsch who identifies it as the most important criterion of building a region. More specifically, he refers to the post-Cold War Europe, when _pluralistic security communities_ were created in order to prevent states from fighting against each other (Fawn 2009: 14). However, the security element is still very important in the region-making process. Buzan and Wæver, for example, stress the importance of what they call the _regional security complex theory_ in order to understand the present structure of the world. This theory is very useful to explain the differ-
ence between the international order characterizing the Cold War years, and the one characterizing the post-1989 period which Buzan and Wæver define as “the new world disorder” (Buzan & Wæver 2003: 3).

In addition, Pavliuk stresses another very interesting point in his analysis on the region-making process. Sometimes regions are defined as “constructed political designs” or “imagined communities,” albeit ones that reflect physical or political realities”. In particular, the expression “imagined communities” means that the actors of a determined geographical area perceive themselves as constituting a region and/or that the region is perceived as such by the rest of the world. Fawn, for example, states that a region exists only when the actors involved “define and promulgate to others a specific identity” (Fawn 2009: 13).

In this context, identity is a fundamental element. Rick Fawn argues that the intentions of the advocates of the project to create a regional identity are very important because it is an indication of the strength of the project itself (Fawn 2009: 21). In effect, the sense of belonging to a region makes that region really existing so that it often cuts the “affiliation to existing nations” (Paasi 2009: 138). Some scholars are convinced that a common identity is fundamental in the region-building process. For example, José Luis Masegosa Carrillo suggests: “without a doubt a feeling of common identity even pre-fabricated or pre-established is crucial for making people think through a regional prism and talk about a political region” (Masegosa Carrillo: 15). He also argues that the creation of a common identity is strongly influenced and supported by regional institutions. In fact, following the path of a large number of scholars, Carrillo argues that the institutionalisation process is very important in the region-making process not only because of their “pulling-together force” which plays a great role in the building of a common identity, but also because they help politicians to meet and identify areas of interest suitable for cooperation. Another reason why the institutionalisation process is important is that institutions help collecting and disseminating information among the regional actors, and thereby strengthening the cooperation among them (Masegosa Carrillo: 18).

Paasi identifies four stages in the institutionalisation process: 1) the territorial shape, which consists in emerging of regions, historical or created ad hoc; 2) symbolic shaping, referring to the naming of the region and the creation of symbols of collective identity in order to reinforce the region-making process; 3) institutional shaping, which
refers to the establishment of informal and formal institution aiming at strengthening networking both inside and outside the region; 4) establishment, meaning that the region is accepted as part of the regional system (Paasi 2009: 136). Paasi adds that these four steps do not necessarily follow a specific order and very often occur simultaneously.

It is important to note that the institutionalisation process is the result of political, economic, social and historical interests, and its intensity depends on the nature of the regional project”. In addition, regional institutions can be more or less formal but „more formally institutionalised regional groups do not necessarily produce more effective cooperation” (Fawn 2009: 19).

At this point, it is possible to understand the concept of „regionness‘ mentioned above. Most scholars define „regionness‘ as „convergence of several dimensions, defined as including „cultural affinity, political regimes, security arrangements and economic policies‘, that result in „regional coherence within a particular geographic area”. Thus, a region can be recognised as such only when it has clear identity and interests (Fawn 2009: 14).

The relative character of regions is recognised by Charles King who states that „what counts as a region depends very much on the particular lenses we are wearing when we ask the question, as well as the historical period on which we are concentrating. Rather than asking „what a region is, it might actually be more appropriate to ask „when it is” (King 2004: 16). This is because the region-making process is very dynamic. Pavliuk, for instance, states that while some „regional cooperative frameworks may become coherent and sustainable, others may shatter or prove transient and become obsolete” (Pavliuk & Klympush-Tsintsadze 2004: 4). The reason for this is that regions are not absolute realities but, as King suggests, they are essentially based on profound linkages among people who distinguish one geographical area from another. Kings‘ statement is very unusual in regional studies because he clearly states that regions are not so much about a commonality of language, culture or religion as stated above but about connections (King 2004a: 7).

Moreover, the dynamic character of regions influences and is influenced by geopolitical developments in the international context. In fact, changes in the power position and in the relations among the nation-states have relevant consequences on the region-building process. The revolution brought about by the end of the Cold War, for instance, has led the nation-states to re-build their relations on new bases, and to answer the challenges and the threats stemming from the
new geo-political situation by regionalising them (Pavliuk & Klympush-Tsintsadze 2004: 3). At the same time, the region-building process influences geopolitics because the closer relations established among the actors involved has important consequences not only on their interactions but also on the reciprocal attitudes with external actors. In fact, if the much stronger relationship among regional actors changes the political, economic and social dynamics in the area, the external actors adapt their policies and strategies to the regional dynamics. Regional actors also react to the different situation by adjusting their attitude towards external actors. For example, the end of the bipolar system and the end of communism have pushed the states formerly belonging to the Soviet sphere to establish stronger relations with the European Union (EU) and to apply for the European membership. At the same time, they have increased their relations with the other states in their area in order to strengthen their efforts to reach their goal as soon as possible and more efficiently. The development of regional cooperation is also strongly supported by the EU. The reason is that it is in the EU’s interests to increase stability, prosperity and security in its neighbourhood (Heikkilä 2006: 7).

Furthermore, the dynamic character of regions has fostered another phenomenon strictly connected to the region-building process, namely; the sub-regional cooperation. Renata Dwan defines it as a “regularized, significant political and economic interaction” that can occur at the national governmental level or between sub-state actors such as regional and local authorities, civil society representatives, private business groups, and individuals”. Dwan distinguishes a region from a sub-region because the latter is characterized by a very intense interaction among its actors. Instead, the level of interaction among the actors of a region can be quite low. Moreover, Dwan states that another feature of sub-regional cooperation is its “uninstitutionalized structure” (Dwan 1999: 2-3). Instead, institutionalisation is very important in regional cooperation, as it has been argued above.

Whatever the case, cooperation among different actors in a particular area increases the level of accessibility to the economic, social, environmental and human resources of diverse geographical spaces beyond the traditional channels represented by the national states.
3. Regional Identity: Togetherness versus Peculiarity

The previous section argued that identity is a fundamental element in the construction of a region. In this section, I will discuss how it has been used in the region-building process in the three areas considered in this study.

The definition of the identity of a region is a very complicated issue because of three reasons. Firstly, the designation of the regional borders is a very tricky question since it depends on the different historical, cultural and political perspectives researchers take into consideration. Secondly, the differences among the regional actors (e.g. language, culture, religion and history) make the definition of identity a very difficult task because of the necessity to transcend them. Thirdly, regional identity is often used for political, economic and social reasons. These three factors are mixed together in the areas constituting the subject of this research where they produce different effects depending on the characteristics and the peculiarities of each region. In fact, the Baltic Sea region, the Western Balkan region and the Black Sea region are very diverse areas where identity assumes a meaning depending on the political, economic, cultural and historical features of the region.

Thus, defining the three areas is a quite complicated task. In the case of the Baltic Sea region, a shared definition does not exist. For instance, Harald Runblom, Mattias Tydén and Helene Carlbäck-Isotalo claim that "the Baltic Region (...) has never been well-defined, at least not from a political, social or economic point of view” (Runblom, Tydén & Carlbäck-Isotalo 1992: 5). Nevertheless, they consider the Baltic Region as an area including Estonia, Latvia, Lithuania, Poland, Germany, Denmark, Sweden, Finland and Russia. They also argue that "the term Baltic Region is not without problems, since the word ‘Baltic’ has different connotations in different languages and countries” (Runblom, Tydén & Carlbäck-Isotalo 1992: 5). Others like Knudsen refer to the Baltic Sea Region by including "all littoral states of that sea”. At the same time, he clarifies the usage of the term Nordic-Baltic region to designate the five Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) plus the three Baltic States (Estonia, Latvia and Lithuania)” (Knudsen 1998: 1). Annika Bergman, like Knudsen, distinguishes between Nordic and Baltic countries but, unlike Knudsen includes in the Nordic states only Denmark, Finland, Norway and Sweden excluding Iceland, while she also uses the term
Baltic countries to indicate the three Baltic Republics, Estonia, Latvia and Lithuania (Bergman 2006: 73). However, the distinction between Nordic and Baltic countries is not always accepted as clear by all the authors. Uffe Østergård, for example, states; “seen from a geographical and geopolitical point of view the majority of the Nordic countries undeniably belong to the Baltic area. Nevertheless, over the last hundred and fifty years the three Scandinavian countries, Denmark, Norway and Sweden have tended to downplay the Baltic component of their national identifications” (Østergård 1997: 26). Østergård states that within the Baltic Sea region Norden, which he defines as “a community of values that transcends boundaries of language and culture” has a special place although he does not share the idea that Norden can be considered as a group of states sharing the same identity. According to Østergård, Norden and Scandinavia are not synonymous. In fact, the term Scandinavia is used to indicate Denmark, Norway and Sweden. Instead, Norden includes not only these three Nordic states, but also – Finland, Iceland, the Faroe Islands, the Aaland Islands, Greenland and the emerging Sami nation in northern Norway”, which are independent nation-states with their own quite different histories” (Østergård 1997: 30-32). The consequence, according to Østergård, is that they do not share the same identity.

In short, researchers define the Baltic Sea region based on geopolitics, but they are also influenced by cultural, historical and political factors. In this paper the Baltic Sea region is referred to according to Annika Bergman’s definition, because Harald Runblom, Mattias Tydén and Helene Carlbäck-Isotalo’s definition is too wide as it includes countries that do not perceive themselves as Baltic like Germany, or that are not perceived as such like Poland. Østergård’s definition is also too broad as it includes Greenland, which neither perceives itself as a Baltic country nor is it a Baltic country. Knudsen includes Iceland, which is very far from the geographical space belonging to the Baltic Sea. Instead, this paper defines the Baltic Sea area by focusing on its Nordic dimension and, of course, the three Baltic Republics. However, Russia (and more specifically north-west Russia which is the part of that country participating very actively in cooperation in the area) is included in the region not only because of its strong involvement in cooperation in the region, but also because of the enormous implications of the influence it exerts on cooperation in the Baltic Sea area.

Defining the Black Sea region is even more difficult for not just a lack of shared definition, but also some researchers deny that this
region really exists. They question whether the Black Sea area can be considered as a region as it is not perceived as such either from the outside by the international community or from the inside by the regional countries (Pavliuk & Klympush-Tsintsadze 2004: 7; see also Aydin 2005: 59). Pavliuk, for example, states that their identity is seen as complementary to something else (in most cases to these countries’ European and Euro-Atlantic aspirations) making uncertain their commitment to sustainable region building”. Also, the boundaries of the area are quite vague as they vary from including the six Black Sea littoral states (Bulgaria, Georgia, Romania, Russia, Turkey, and Ukraine) to the eleven [twelve at the moment] countries that are members of the region’s largest cooperative framework – the organization of the BSEC to an even larger area, given that several more countries have already applied or are considering applying for membership in BSEC” (Pavliuk & Klympush-Tsintsadze 2004: 7).

King shares Pavliuk’s view adding that what constitutes the Black Sea region depends on how and when the question is asked. He argues that the history the Black Sea area has passed through periods in which the relations among the regional actors were quite close, especially from the commercial point of view (e.g. in the Middle Ages), and periods in which struggles and tensions dominated among them (e.g. from the 16th to the 18th century). Kings also states that today it is very hard to speak about a Black Sea identity because political leaders are more likely to set themselves off from their neighbours – as more European, more deserving of membership in Euro-Atlantic institutions, or simply more civilized – than to engage in genuine regional cooperation” (King 2004a: 7-8). Some researchers define the Black Sea region as an intellectually constructed region” because it has a weak identity due both to the huge discrepancies among the regional countries in economic, political, social and cultural aspects, and to the secondary importance the Black Sea has in their international agenda (Aydin 2005: 59). These two factors that prevent them from an effective region-building are the consequences of the kind of relationships that the countries of the region have historically established with each other. King says, for instance, that the relations between the regional states characterised by cooperation and conflicts have always involved the movement of people, goods and ideas”. In fact, over the long course of history, the communities around the coasts and in the hinterlands have touched one another in enduring ways. Religious practices, linguistic forms, musical and literary styles, folklore and food habits, among many other areas of social life, are joined together.
in a web of mutual influence that is readily apparent to even the most casual visitor (…)” (King 2004a: 8). In effect, King states that what constitutes a region in the case of the Black Sea area are relationships, not identity (King 2004: 20). In this paper, the Black Sea region is referred to according to Pavliuk’s definition, which includes Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine.

By contrast, the Balkans is a “geographically coherent region” (Tzifakis 2007: 56). The term _Balkans_ was coined at the end of the 19th century to indicate an entire geographical area. The first to use the expression “Balkan peninsula” was the German geographer, August Zeune, who in 1809 described the region stating that “in the north this Balkan peninsula is divided from the rest of Europe by the long mountain chain of the Balkans, or the former Albanus, Scardus, Haemus, which, to the northwest, joins the Alps in the small Istri an peninsula, and to the east fades away into the Black Sea in two branches” (Todorova 1994: 464). Later, the term _Balkans_ was used not only for geographical purposes, but also on the basis of an evaluation of geopolitical, historical, security and cultural factors linking together the countries of the region that had lived together first under the Ottoman Empire and later within the Socialist Federal Republic of Yugoslavia. It was after the disintegration of Yugoslavia that the term _Balkans_ was strengthened in relation to the emergence of a regional security complex (Tzifakis 2007: 56). Milica Delevic states; “the main outer geographical boundaries remain unchanged, yet the number of countries in the Balkans is constantly increasing” (Delevic 2007: 11). Furthermore, Tzifakis and Todorova claim that in cultural terms the Balkans has been constructed in opposition to Europe, namely as “Europe’s other” (Tzifakis 2007: 57 and Todorova 1994: 458). In fact, the distinction between the eastern and the western parts of the region introduced during the Vienna European Council in 1998 responds to this logic. Tzifakis argues that the reason behind this divide is the necessity of the EU for affirming its identity and for reconstituting its “Other”, especially since Bulgaria’s and Romania’s candidacy to the EU membership. This was a part of the so-called Regional Approach of the EU in the Balkans, set up to push the peace processes in Bosnia and Herzegovina and Croatia. However, the countries in the area were

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1 The Regional Approach launched in 1996 offered the five target countries (Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia and Yugoslavia constituted by Serbia and Montenegro) to establish _contractual relations_ with the EU in terms of trade concessions and financial assistance. In
not very enthusiastic about the EU policy in the region. For example, Bosnia and Herzegovina and Croatia did not want to be included in a regional group in which Serbia and Montenegro participated, because they feared that something similar to the former Yugoslavia would be the outcome. Albania and the Former Yugoslav Republic of Macedonia (FYROM) considered the Regional Approach as a step backwards in their path towards the association agreements with the EU, since they had already signed trade agreements while the other countries included in the Regional Approach had not. Furthermore, none of these countries was enthusiastic of being included in a constructed region, simply because of the negative connotation the expression ‘Balkans’ had acquired to indicate ‘political violence, ethnic conflicts and the fragmentation of states”. Despite these considerations, this paper refers to the geographical definition of the Balkan peninsula by including Albania, Bosnia and Herzegovina, Croatia, Montenegro and Serbia, FYROM, and Kosovo under the United Nation Security Council (UNSC) Resolution 1244/99, Greece, Romania, Bulgaria and Turkey, although it occupies only a small territory of the Balkans’ area (Delevic 2007: 11). These countries are particularly sensitive over their Balkan identity. Maria Todorova states that some of them accept reluctantly it, while others refuse any connection with it. At the same time, she also argues that ‘what is common for all Balkans nations is the clear consensus that the Balkans exist, that there is something that can be defined as Balkan, although it may be an undesired predicament and region”. According to Todorova, the only country that seriously considers ‘the Balkan name and the Balkan identity” is Bulgaria. In fact, in this case, the Balkans is considered as ‘a pillar of Bulgarian independence and symbol of its nationhood”. In addition, another characteristic common to all the Balkan countries is the awareness of constituting a ‘bridge between cultures” (Todorova 2009: 57). Of course, the enormous cultural differences among the Balkan countries constitute an obstacle to the construction of a regional identity. In this context, the deep tensions between them, essentially based on ethnicity and nationality, have historically had great importance in their relations and have always had an enormous influence on their domestic politics. In fact, ethnicity and nationality together with history have often been used by the governments to justify wars, violence and repression as in the case of the war in Kosovo.
Furthermore, it is necessary to make some considerations about the region-building process in the three areas based on a comparative perspective. In effect, it must be noted that the definition of the regional boundaries is not an easy issue. Nevertheless, the Balkans is the most coherent region from the geographical point of view while the boundaries of the Baltic Sea region and of the Black Sea area are quite fuzzy.

The definition of identity is also a tricky issue, essentially for two reasons. The first one is strictly connected to the definition of the regional boundaries as it prevents from designating a clear geographical space corresponding to a specific identity. The second reason is linked to the huge political, economic, historical, social and cultural differences among the regional countries that represent a relevant obstacle to the creation of a regional identity. Nevertheless, it is important to notice that in the case of the Baltic Sea region this factor is not as crucial as in the other two cases in spite of the differences among the regional actors which have historically influenced the identity-building process, although less than in the Black Sea area and in the Balkans.

The established relations among the regional actors in each of the three areas have strongly influenced not only the creation of a regional identity, but also the region-building process itself. Thus, while the relations in the Baltic Sea region are historically based on friendship and cooperation (although several conflicts occurred in the area in the past), the Black Sea area and the Balkans have always been very fragmented areas where ethnicity and nationality have unleashed fierce wars among the regional actors. Consequently, the creation of an identity as well as the region-building process itself has developed more easily in the Baltic Sea region, but not without difficulty.

Moreover, the geographic location of the three areas plays a fundamental role in the formation of the identity. The common element to the three regions is the sea. This is a crucial factor not be underestimated, as it is part of the explanation of the formation of the regional identity. The importance of the sea lies in its linking function facilitating the connections between peoples. Historically, the sea has strongly influenced the life of people. For example, in the Baltic Sea region, it has pushed the creation of the Hanseatic League originating in Northern Germany that included up to 100 towns between the 14th and the 15th centuries, and was a "network of cities" establishing

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1 The Hanseatic League was dissolved against the background of the rise of capitalism in the North Sea region (where there was a tendency towards centralised nation-
trade exchange and cooperation in the area. In the case of the Black Sea region, the sea had a special place especially under the Ottoman Empire for economic reasons, and later under the Russian Empire and during the Soviet times because of the Russian naval presence on the shores of the sea (King 2004a: 225). In the case of the Balkans, its location in the eastern Mediterranean has made them “crossroads of three continents – Europe, Asia, and Africa – and, since earliest recorded times, its accessibility by both sea and land opens it to political, military, and cultural incursions and contentions from all directions”. Furthermore, the harsh mountainous Balkan territory “generally fragmented human settlement… contributing to the rise of strong ethnic group identities” (Hupchick 2002: 7). The ethnicity issue has led to open conflicts not only in the Balkans but also in the Black Sea area where the end of the Cold War unleashed the tensions frozen until then. By contrast, the ethnic issue does not concern the Baltic Sea area very much although the Russian Diaspora is a huge problem to be solved and is a crucial factor in the relationship between Russia and the three Baltic Republics, and greatly influencing the EU-Russia relations.

4. Regional Cooperation: Challenge or Opportunity?

In the previous section, I discussed the concept of regional cooperation, identity issue in the three areas and more generally its influence on the region – building process. In this third part of the paper, I will try to analyse the phenomenon of regional cooperation in each of the three areas through a comparative approach.

In order to understand regional cooperation in the three areas, it is important to bear in mind a crucial factor, namely, the fact that this phenomenon with an old tradition (e.g. the Hanseatic League) has historically been very spontaneous in the Baltic Sea region, while in the Black Sea region and in the Balkans it has appeared only recently. The reason must be found, as stated in the introduction, in the new situation brought about by the end of the Cold War, when a multipolar system was established and the relations among the nation-states had to be rethought to face the new threats and challenges in a more efficient way. Thus, the regional actors in the three areas have in-
creased and improved their cooperation by establishing a large network of organizations. In this paper, only three of them will be taken into consideration, namely the CBSS for the Baltic Sea region, the BSEC for the Black Sea area and the CEI for the Balkans. This choice is due to three reasons. The first one is the fact that they represent the immediate answer to the new international situation that facilitates the establishment of cooperative relations among the regional actors. The second one is the crucial role these organizations play in strengthening regional cooperation in the three areas as they provide a framework of rules guiding the cooperation in the region. The third reason is the relevant role they have in the international context for bilateral relations with the external actors in relation to one or more sectors and on specific subjects.

The CBSS, the BSEC and the CEI were established not only for increasing and improving the regional cooperation, but also as a result of geo-political considerations. The CBSS was established in 1992 as an initiative of Germany and Denmark not only as a response to the geopolitical changes that took place in the Baltic Sea region with the end of the Cold War, but also to include in this co-operative framework Estonia, Latvia and Lithuania (that had been under the Soviet rule for fifty years), and to push forward the democratisation and the modernisation of these three countries. Another very important reason was the involvement of Russia in the cooperation system to increase the stability in the area.1 The BSEC was established in 1992 on the initiative of Turkey that considers the Black Sea region as a very sensitive area for its interests not only for historical reasons as it was part of the Ottoman Empire, but also for economic reasons closely linked to the pipeline system developing in the area. The oil issue is also a crucial factor for Russia that is a big regional actor. Thus, the energy policy is the most relevant factor in the Turkish-Russian relations, as Suat Kinklioğlu and Valeriy Morkva explain. In effect, energy trade between the two countries has enormously increased, especially after the construction of the Blue Stream pipeline, which is the pillar of the energy relationship (Kinklioğlu & Morkva 2007: 540). The CEI was established in 1989 with the strong support of Italy and Hungary. Italy wanted to counterbalance the increasing influence of Germany on the area to protect its commercial interests in Central Europe. Hungary wanted to establish significant links with other states that had been part of the Soviet camp to cooperate in their mutual extrication from

1 <https://www.cbss.org/CBSS-The-Council/history>.
the legacies of communism and their reintegration in Western Europe” (Dawson 2001: 51).

The different geopolitical, economic and historical background of the establishment of the three organizations is contained in the statements presenting their main purposes. The CBSS states that its role is “to serve as a forum for guidance and overall coordination among the participating states”. The BSEC states; “it came into existence as a unique and promising model of multilateral political and economic initiative aimed at fostering interaction and harmony among the Member States, as well as to ensure peace, stability and prosperity encouraging friendly and good-neighbourly relations in the Black Sea region”. The CEI was established “to bring the countries of Central and Eastern Europe closer together and assist them in their preparation process for EU membership”. While the CBSS stresses the willingness of strengthening cooperation in several sectors among the regional actors, the BSEC puts emphasis on the necessity of improving the relations among its member states because of the tensions within the region related to political, historical, economic and cultural problems. In the case of the CEI, cooperation is finalised toward EU membership of the regional countries that are still outside it.

Furthermore, another factor when comparing the three regional institutions concerns their sources of funding. Although none of the three institutions have a general or permanent budget, the way they finance their work and projects differ. The CBSS finances its projects separately via contributions from its members, or external sources, or a combination of the two. The member states responsible for the management of the finances coming from other sources jointly fund the Permanent International Secretariat. The BSEC also funds its activities based on the contributions from its members, but its projects are funded primarily by an external source, namely the Black Sea Trade and Development Bank (BSTDB) (Dwan 1999: 225). The CEI finances its work and projects through its member states responsible for their own expenses connected to the CEI activities (Central European Initiative 2007). The funds provided by the European Bank for Recon-

2 <http://www.bsec-organization.org/Pages/homepage.aspx>.
4 — Contributions from the Member States are paid according to the following scale: Denmark 12 %; Estonia 4 %; Finland 12 %; Germany 12 %; Iceland 4 %; Latvia 4 %; Lithuania 4 %; Norway 12 %; Poland 12 %; Russia 12 %; Sweden 12 %”. The European Commission does not provide any direct contribution. See Council of the Baltic See States (2009).
struction and Development (EBRD) are also very important in this context (Dwan 1999: 235).

It is evident that regional institutions play a crucial role in the region-building process in the three areas not only for the financial help they provide in promoting cooperation between its members, but also for their important task of providing general rules of cooperation itself. These two elements are common to the three institutions, but the preliminary reasons constituting the basis of their establishment are different as argued above. These differences have strongly influenced the kind of cooperation established among the regional actors. For instance, the need of strengthening and improving the relations among its member states in the Black Sea region has led to the realisation of a cooperation system which is more economic than political. This is essentially due to the political, economic, historical and cultural tensions mentioned above erupting into open conflicts like the ones between Armenia and Azerbaijan for the control of Nagorno Karabakh, and between Russia and Georgia in recent times. There are some tensions also in the Baltic Sea region between the three Baltic States (Estonia, Latvia and Lithuania) and Russia for political and historical reasons as well as for the Russian Diaspora, but the nature of the relationships among the regional actors prevents them from open confrontation. Instead, ethnic conflicts have historically characterised the relations among the Balkans as in the case of the Balkan wars and the war in Kosovo. In this case, the CEI has managed to create a cooperation system that is not merely economic even though the CEI has focused primarily on the development of infrastructure in central eastern Europe as well as on the reconstruction of Bosnia-Herzegovina and Croatia” (Dwan 1999: 236). However, the political factor in regional cooperation within the CEI is no less relevant as its main goal is to help the member states that are outside the EU to acquire membership. In effect, like the CBSS and the BSEC, the CEI includes member countries that are EU members and countries that are not. By contrast, the EU is not one of the CEI actors, although it is a member of the CBSS through the European Commission (EC) and an observer within the BSEC framework.

The importance of the EU is crucial for the development of the regional cooperation in the three cases, as it has always promoted regional cooperation in the three areas. In fact, “a key external relations priority for the EU is to promote prosperity, democracy, peace, stability and security in its immediate environs” (Aydin 2005a: 261). In order to reach this aim the EU has formulated policies and initiatives
through which it has developed its relationships with its neighbours and strongly influenced the relations among the actors in the three regions. For instance, the Baltic Sea region is included in the Northern Dimension (ND) of the EU, while the Black Sea area is a part of the European Neighbourhood Policy (ENP). However, the case of the Balkans is different because some of the regional countries are EU members, some others (the Former Yugoslav Republic of Macedonia, Croatia and Turkey) are candidate countries and included in the enlargement process, while still others (Albania, Bosnia and Herzegovina, Kosovo under the UNSC Resolution 1244/99, Montenegro, and Serbia) are potential candidates. Nevertheless, it must be noted that the three regions include countries that are EU members and countries that are not. In addition, some countries have expressed their interest in the EU membership (Georgia, Moldavia and Ukraine). These countries, together with most of the Balkans, are left out from the EU now. In geo-political terms, this means that the inclusion/exclusion dilemma is still unresolved”. Every EU enlargement wave has included some states changing the EU borders and leaving outside some states. As Christopher Hill argues, “the extension of the EU’s border is the most important of all the foreign policy implications of enlargement. It creates new dividing lines between insiders and outsiders, lines which themselves create formidable problems for the countries on either side of them” (Smith 2005: 758). This is very much the case in the Black Sea area and in the Western Balkans where the number of countries willing to enter the EU is higher than in Baltic Sea region. Here, one of the regional actors (Norway) refuses to enter the EU primarily for economic reasons.

The inclusion/exclusion dilemma also affects the North Atlantic Treaty Organization (NATO) policy in the three areas where, together with the EU, it plays a crucial role in influencing the geopolitical dynamics of the region. In effect, the end of the Cold has led NATO to rethink its role that had been based on military protection of the western world until then. Nevertheless, the end of the bipolar system brought about a profound change in the reorganisation of the strategies of NATO that is now open to all European countries willing to join. Consequently, many of the countries belonging to the three regions have entered the organisation, while others were NATO

1 In the Baltic Sea region, Poland entered NATO in 1997, while Estonia, Latvia and Lithuania in 2004 like Romania in the Black Sea and Slovenia in the Western Balkans. In addition, in the latter region Albania and Croatia acquired the NATO membership in 2009.
members since the Cold War period (Denmark, Germany, Norway and Poland in the Baltic Sea region, Turkey in the Black Sea area) and some others are still outside (Finland and Sweden). The enlargement process is of particular significance for NATO and together with the conflicts in the former Yugoslavia illustrates NATO’s desire to look forward to becoming a more inclusive Alliance into the twenty – first century and one that was reinterpreting its mandate of ensuring security in Europe” (Kaufman 2002: 27). In effect, on the one hand the enlargement process was considered as an efficient way to face the new challenges and threats brought about by the end of the Cold War, on the other one the successful intervention of NATO in the conflicts in the Western Balkans had showed that “NATO was ready to assume its role as an important Alliance now linking the countries not only on both sides of the Atlantic but across Europe as well” (Kaufman 2002: 53). The presence of NATO in Europe revealed the necessity of a military unity within such an alliance because the EU’s strategy in the Western Balkans conflicts had failed. The war in Bosnia-Herzegovina in 1995 and in Kosovo in 1999, political divisions emerged within the EU and thus the incapacity of the EU of speaking with one voice confirmed the strategic importance of NATO.

In effect, despite the historical reason for the disappearance of the foundation of Alliance, NATO still plays a fundamental role in the European geopolitics. This is evident, for instance, in the NATO‘s relationship with Russia. Historically, the relations between the two actors have not been easy. In fact, the bipolar system that characterized the Cold War period was based on the rivalry between the United States of America (USA) and the Soviet Union (USSR). After the end of the Cold War and the collapse of the Soviet Union, NATO and the Russian Federation (that is the successor of the Soviet Union) have rethought their relations in order to reorganize the European space according to the new international situation. The result is that NATO and Russia co-operate on an equal basis within the NATO-Russia Council (NRC) established in 2002.

Russia also co-operates on bilateral basis with the EU through the “Strategic Partnership” including the four common spaces”. The reason such a co-operative framework has been developed is that Russia refused the invitation to be included in the ENP because it wanted to establish “equal basis” relations with the EU (Smith 2005: 759).
However, it is also important to note that Russia co-operates with the EU through the ND where it plays a crucial role of balance in the area not only because of its delicate relations with Estonia, Latvia and Lithuania, but also for the competition with Norway and Denmark for the natural resources of the North Pole (Børresen 2008: 50). Of course, the oil issue is also very sensitive in the Black Sea area and in the Balkans where the construction of pipelines strategically located often creates tensions between the regional actors. The result is that economics is closely connected to politics as regional dynamics are guided by both economic and political interests. For instance, politics is at the basis for the fact that Russia has always suspicious about at the enlargement of NATO even more than the EU expansion towards the east. The reason is that this means, “taking countries from the former Warsaw Pact into the Alliance, which brought with it the perception of co-opting them and potentially putting them into the role of aggressors against Russia” (Kaufman 2002: 37). For this reason, Russia was disappointed when Georgia and Ukraine have clearly expressed their willingness of acquiring the NATO membership.

Thus, NATO and the EU consider Russia as a crucial actor in Baltic Sea region, in the Black Sea area and in the Balkans essentially for three reasons. Firstly, Russia is a big power with deep economic interests as in the case of the oil issue. Secondly, the presence of Russia in the three areas strongly influences the relationship between NATO and Russia on the one hand, and between the EU and Russia on the other. Thirdly, Russia is a member of both the CBSS and the BSEC, and has historically exerted significant influence in the Balkans.

5. Conclusions

The Baltic Sea region, the Black Sea area and the Balkans have developed three systems of cooperation that is possible to compare based on some important elements. First, identity is very much relevant in the designation of a region but at the same time, it is very difficult to define it. This is true in the three cases where the fuzziness of the regional boundaries makes the definition of identity a very hard task. In spite of this, in the Baltic Sea area, the region-building process has been more successful than in the other two areas for two important reasons. The first one is that regional cooperation has deeper roots
here than in the Black Sea area and in the Balkans. The second reason is strictly connected to the fact that the historical, political, economic, social and cultural differences among the regional actors are much deeper in the Black Sea area and in the Balkans. In these two regions where ethnicity and nationality dominate relations among the actors, several wars have been fought among the nations with these regions. Tensions are also present in the Baltic Sea region as in the case of the Russian Diaspora, but they have never erupted into open conflicts. Furthermore, this factor has strongly influenced the kind of relationship established among the regional actors. In fact, the relations among the actors in the Baltic Sea region are essentially based on friendship and cooperation, while in the other two regions they are more difficult. Of course, there are other elements influencing the regional cooperation in the three areas. For example, the relations among the regional actors are strongly affected by history and politics because of the Soviet legacy, ethnicity, and economics because of the profound interests in natural resources.

In this context, the role of the regional institutions is crucial in order to define the geopolitical dynamics of the region. In fact, the CBSS, the BSEC and the CEI have managed to establish a fruitful cooperation among their members that have considered the work of the institutions very useful in relation to increase their political, economic and social development. This happened despite the fact that most observers in the beginning of the process were sceptical about the prospects of these regional groupings.

Nevertheless, external actors such as the EU and NATO have pushed for the development of cooperation in the three areas to increase the political, economic and social interdependence among the regional actors with the aim of creating stability, prosperity and security among them. Dwan points out that the success of the EU and NATO’s actions in the three areas is also because the perspective of acquiring the two memberships is a strong incentive to strengthen the efforts for cooperation. At the same time, Dwan notes: “desire for EU and NATO integration can also make applicant states hesitant to enter subregional arrangements for fear of giving the impression that they would be satisfied with alternative cooperative processes other than full NATO and EU membership. EU and NATO integration processes contain and shape sub regional cooperation in Europe” (Dwan 1999: 4).

Russia is another important factor in the regional cooperation in the three areas. This article has discussed the relevance of the big
power in influencing the internal geopolitical dynamics not only because of its strong political and economic interests, but also because of its relations with the EU and NATO. For example, the negative reaction of Russia provoked by the expansion of the EU, and especially of NATO, in the Baltic Sea region, in the Black Sea area and in the Balkans created tensions in the three regions (as previously stated Russia is not part of the Balkans but it has always exerted influence in the region) which usually affect regional cooperation. However, it must be noted that the relations of Russia with the other regional actors affects the relations of the big power with the EU and NATO as in the cases of the Orange Revolution in Ukraine in 2004-2005, the crisis with Estonia in 2007, and the war between South Ossetia and Georgia in 2008.

Thus, the Baltic Sea region, the Black Sea area and the Balkans are very different regions in many aspects. In fact, it is possible to identify historical, political, economic and cultural differences not only between the areas but also within them as each actor has its own peculiarities. This has led to the establishment of three systems of regional cooperation originating in three region-building processes that have been strongly influenced by the peculiar geopolitics characterising the regional context where the cooperation has evolved. Consequently, where the relations between the regional actors are more difficult and even hostile like in the case of the Black Sea area and of the Balkans, cooperation is not easy and implies a great effort to overcome the political, economic and social problems and hostilities between the regional actors themselves. Instead, the Baltic Sea region had developed successful cooperation. This is why it has been defined as “a laboratory of all – European integration” or “a prototype for the future Europe” (Joenniemi 1997: 56). Of course, the Baltic Sea area is not rid of tensions, as in the relationship between Russia and the three Baltic Republics, but regional cooperation has reached a very good level of organisation.

In conclusion, this article has tried to compare the three areas by attempting to give an overview of the differences and the similarities between them. The aim has been to try to contribute to the discussion on regional cooperation in the Baltic Sea region, the Black Sea area and the Balkans that has become increasingly relevant in the last two decades as the most efficient response to the threats and the challenges emerging after the end of the Cold War and of the bipolar system.


Russian Oil Exports in the Baltic Sea: Making Policies and Decisions at the Intersection of Domestic and International Politics

Johnny Rodin

This chapter devotes attention to the Russian oil sector. One of the most notable developments in recent years is that the Gulf of Finland has become Russia’s major outlet for oil exports. A pipeline, the Baltic Pipeline System (BPS), and a high-capacity oil port in Primorsk northwest of Saint Petersburg have been operational since 2001 and 2003 respectively. In 2008 Primorsk handled up to 75 million tons of crude oil a year. This makes it the largest Russian oil port, superseding the port of Novorossiysk at the Black Sea (45 million tons a year). In 2007 Primorsk alone stood for almost 40% of Russia’s total oil exports. In May 2008 the Russian government decided that a second Baltic pipeline system (BPS-2), running to the port of Ust-Luga on the southern shore of the Gulf of Finland, would be built. BPS–2, which is planned to be finalized in 2012, will increase the overall capacity of the Baltic Pipeline System to 120-150 million tons a year (www.transneft.ru). If all the plans for expansion of port facilities in Ust-Luga, Vysotsk, and Vyborg are implemented the capacity may

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1 This article is written within the framework of the research project “Oil-Spill Risks and Decision Rules in the Baltic Sea” (see www.oilspillregimes.com). I am grateful to the Swedish Institute of International Affairs that hosted the project and to the Swedish Emergency Management Agency that financed it. I am also very thankful to my project colleagues, Professor Olav Knudsen (Swedish Institute of International Affairs) and Björn Hassler (Södertörn University College), who gave me useful comments and assistance throughout the research process. I would also like to thank Natalja Österman, who has provided me with useful information.
even reach 250-300 million tons a year (Regnum.ru, 29 September 2008).

The aim of this chapter is twofold. First, it sets out to examine why the Gulf of Finland has developed into the major Russian maritime export route for crude oil and other oil products in the short and medium term, and why other export options have been underrepresented or discarded, most notably the Murmansk region. The second aim is discuss some of the international implications of this development. Increasing ship traffic may have serious environmental consequences for the Baltic Sea as a whole if a tanker accident and a subsequent oil spill were to occur. This traffic may also have international political implications as attempts to regulate maritime activities and environmental hazards intersect with economic interests. As an illuminating case of the relation between domestic and international politics, and the tension between economic and environmental interests, the article studies the negotiation process of designating the Baltic Sea the status as a so-called “Particularly Sensitive Sea Area” (PSSA) that took place in the beginning of the 2000s.

The analysis is based on policy documents, reports, and statements in media produced by important Russian actors, such as the Russian federal government, regional governments, state enterprises dealing with oil transportation and distribution, and finally state and private oil companies.

1. Outlining the Russian Oil Sphere

The Russian commitment to the Baltic Sea as a major route for oil exports might appear somewhat irrational for several reasons. Prominent Russian analysts, such as Pavel Baev (2004) and Vladimir Milov (2003, 2005), estimate that the European market, which is Russia’s main market, will stagnate in the future as the EU tries to diversify its oil and gas imports and switch to more sustainable sources of energy. There are also technical and political problems connected to the Baltic Sea. The Danish straits and the Gulf of Finland are bottlenecks for ship traffic. Yevdokimov also mentions the potential political costs with the Baltic Sea receiving the PSSA-status (see below) (Interfax 24 September 2003; KSF.RU 8 October 2003; 1

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1 See several of his presentations at www.energypolicy.ru.
Ekonomika i TEK September 2006). One could also add that the Murmansk region is situated closer, in comparison to the Baltic Sea route, to some of the largest Russian oil deposits in Western Siberia and the Timan-Pechora fields. Moreover, the port of Murmansk, in contrast to the Gulf of Finland, is ice-free year-round and allows for the biggest tankers to dock, which is not possible in Primorsk.

Thus, if you view states as coherent rational actors, the Russian investment in the Baltic Sea region is somewhat difficult to understand. If you by contrast choose a more pluralist view the development depicted above becomes more comprehensible. The pluralism regards both the level of politics (the domestic and the international level), the range of policy fields (security policy, federal-regional affairs, economic policies), and the multiplicity of actors (state and non-state) involved in oil sectors in general. This article will demonstrate that the tension between these various elements can explain to a large extent why the Baltic Sea, and not other potential routes, has become Russia’s main export route for crude oil and other oil products. In this regard Russia is no different than any other country. This kind of pluralism exists in all states, although it is probably more tangible in liberal market economies than in authoritarian states.

The “irrationality” that the pluralism of the oil sector creates at the aggregated level does not imply that each individual actor is irrational. The analytical point of departure in this article is rather that the government, various state agencies, private oil companies, and the other actors involved in the oil sector are rational and aim to maximise or at least satisfy their interests. These interests are to a high degree defined by their respective activity and function in the oil sector, and by how the oil sector is institutionalized. In other words, where you stand depends on where you sit.

In the following I examine the structure of the Russian oil sector and the interests of some of the most important Russian actors, such as the Russian federal government, regional governments, state enter-

1 In Ekonomika i TEK Yevdokimov elaborates on his position in great length (see <http://www.rusoil.ru/opinions/o09_06_38.html>).
2 Due to the narrow and shallow Danish straights the Baltic Sea route allows only for tankers of a maximum 110,000 dwt. The Murmansk option allows for 300,000 dwt tankers (Hänninen & Rytkönen 2004: 39). Regarding the ice situation one could mention that in 2003-2004 only 34 vessels visited Primorsk due to thick ice (Hänninen & Rytkönen 2004: 48).
prises dealing with oil transportation and distribution, and state and private oil companies.

There is an inbuilt complexity to the oil sector in that it consists of several sub-sectors: the upstream, the midstream and the downstream sector. The upstream sector involves locating and extraction of crude oil. The midstream sector entails the transportation from the oil fields to refineries. Finally, the downstream sector comprises refining, sales, and distribution. The government and the parliament normally hold the regulatory and powers in all three sectors. However, there are other state actors as well as private actors, who too are active in one or several of the sub-sectors. One should also keep in mind that Russia is a federation with three levels of government: the federal, the regional, and the local. In this context only the federal and to some extent the regional level is included in the analysis because they are of most relevance. Finally, international actors might be involved in all three streams.

A meeting dedicated to the problems of Russian oil production in February 2009 in the city of Kirishi (Leningrad region) provides a good overview over the dominant actors in Russia’s oil sector today.

Table 1. Key Persons in the Russian Oil Sector

<table>
<thead>
<tr>
<th>Name:</th>
<th>Position/Organization:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vladimir Putin</td>
<td>Prime Minister</td>
</tr>
<tr>
<td>Igor Sechin</td>
<td>Vice Prime Minister, Chair of the Board of Directors of Rosneft</td>
</tr>
<tr>
<td>Aleksei Kudrin</td>
<td>Minister of Finance</td>
</tr>
<tr>
<td>Igor Levitin</td>
<td>Minister of Transport</td>
</tr>
<tr>
<td>Elvira Nabiullina</td>
<td>Minister of Economic Development</td>
</tr>
<tr>
<td>Jury Trutnev</td>
<td>Minister of Natural Resources</td>
</tr>
<tr>
<td>Sergey Shmatko</td>
<td>Minister of Energy, Chair of the Board of Directors of Transneft</td>
</tr>
<tr>
<td>Ilya Klebanov</td>
<td>Presidential Representative of the Northwestern Federal District</td>
</tr>
<tr>
<td>Valery Serdyukov</td>
<td>Governor of the Leningrad region</td>
</tr>
</tbody>
</table>

1 Other participating organisations were: the Federal Anti-Monopoly Agency, Russian Customs, Federal Tax Authorities, Vneshtorgbank, Vnesheconombank, and the Russian Academy of Science. It is worth noting the one of the major private oil companies, TNK-BP, did not participate (see also below).
Aleksei Filipenko  Governor of Khanty-Mansiysk region
Andrei Akimov   Gazprombank
Vagit Alekperov  CEO Lukoil
Vladimir Bogdanov  CEO Surgutneftegaz
Sergei Bogdanchikov  CEO Rosneft
Aleksandr Dyukov  CEO Gazprom Neft
Sergei Maslov  CEO Transnefteprodukt
Aleksey Miller  CEO Gazprom
Shafagat Takhaudinov  CEO Tatneft
Nikolai Tokarev  CEO Transneft
German Khan  CEO Slavneft

Table 1 reveals a great deal about the current power structures within the Russian oil sector. There are three main factors to take into consideration. First, it is characteristic that Prime Minister Putin participated in the meeting rather than President Medvedev. After the break-up of the Soviet Union the presidency has indeed been the strongest position in Russian politics. Yet, since 2008, when Putin became Prime Minister, this state of affairs can be questioned. Moreover, Putin’s personal interest in energy politics has most likely played a role in this as well.1 It is reasonable to assume that the Federal Government now has a bigger say concerning regulation of the oil sphere.

The second important development concerns Russia’s federal system. The 1990s were characterized by Russian standards by a relatively decentralized system in which the regional executive leaders could get a hold of considerable political and economic power. However, in the last decade Russia has gone through a process of centralization through which the regional leaders indeed lost much of their influence (see Rodin 2008). Yet, at least some regions still wield considerable influence, perhaps not over strategic policies, but over their more detailed outline and their implementation.

This paradigm shift towards a more centralized federal system built on a strong executive power structure has had consequences for the oil sector, especially for the upstream and downstream sector. During the 1990s the regions could extract oil on their own territory

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1 Putin holds a PhD (kandidat nauk) degree (1997) from St. Petersburg Mining Institute.
and more or less independently sell it on the international market. These competences are now regulated by federal frame legislation. Yet, some regional leaders continue to play an important role in the oil sphere, such as Tatarstan’s president Mintimer Shaimiev and the governor of the Leningrad region, Valery Serdyukov. These and other regional leaders often participate in meetings, such as the above-mentioned, and in conferences where questions and policies regarding oil are discussed.¹

The third development concerns the relation between the state and the private sector, which affects all three sub-sectors of the oil sphere. During the 1990s the bulk of the oil production had been in the hands of a number of private oil companies. However, the Putin presidency entailed a more active role for the state, in particular in the oil industry. The negotiated peace between Putin and the oligarchs was breached in late 2003 when Mikhail Khodorkovsky, the executive head of Yukos (until then one of the major private oil companies), was charged of, and later convicted for, tax evasion. Yukos was divided and the parts sold to the state-controlled companies Rosneft and Gazprom through shell companies. The growing ambitions of the state have also been manifested through a number of purchases of private oil companies. One of the biggest deals in Russia’s history was Gazprom’s purchase of Sibneft in September 2005.² Oil companies controlled by the state, such as Rosneft and Gazprom-Neft, are now major players in the oil production industry.

The state offensive also affects the possibilities for foreign companies to operate in Russia. A new law (2008) states that foreign actors need permission to own more than a 50 per cent share of a Russian company. If the company is of strategic importance³ no more than ten per cent share may be in foreign hands. Moreover, foreign companies, such as TNK-BP, have been subjected to substantial pressure by administrative means.

The Russian oil sector can consequently be depicted as in figure 1 below.

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¹ I.e. the yearly conference — Russian Week of Oil and Gas”.
² However, it should be noted that some experts, for instance the former presidential advisor Andrei Illarionov, have stated that the government had little control over this deal (Johnson’s Russia List, 30 September 2005).
³ More than forty branches are considered strategic, besides the energy sector also the weapon industry, the airplane and space industry, TV, radio, publishing, and telecom.
2. The Federal Executive: Balancing Economic and Political Interests

Besides the President, who by virtue of his constitutional powers can decide upon the main directions of Russia’s foreign policy and exter-
nal security, the Ministry of Energy is a major player. It carries the main responsibility for formulating and implementing policies and legislation regarding production and transportation of oil. The fact that the minister of energy is simultaneously the chair of the board of directors of Transneft, the company that controls the pipeline monopoly, also grants the Ministry of Energy considerable influence. The ministry is also involved in international negotiations with OPEC and the EU (the Energy Dialogue). Sergey Shmatko is currently minister of energy (since 2008). His predecessor, Viktor Khristenko (2004-2008), is a veteran in the Russian government. He is currently Minister of Industry. Other ministries, such as the Ministry of Transport, the Ministry of Economic Development, the Ministry of Natural Resources, the Ministry of Foreign Affairs, may also influence policies and legislation of the oil sector.

So why are the president and the Russian federal government interested in using the Baltic Sea and particularly the Gulf of Finland as one of the country’s main export routes for crude oil and oil products? One side of the answer has an economic rationale. Vladimir Putin has played an important role for turning the Gulf of Finland into one of Russia’s major outlets of oil. Already as Prime Minister in 1999 he personally pushed for finalizing the construction of BPS-1. Putin saw the development of Russia’s oil export structures as an important step in restoring the country’s economy and international status (Volodin 2004: 5).

Indeed, Russia’s economic development as a state depends greatly on oil. In 1993-2005 natural resources represented around 30-40 per cent of Russia’s GDP (Leijonhielm et al 2009: 112). In 2008 nearly half (47.5 per cent) of all tax revenues originated from the oil-and gas sector (www.minenergo.ru). In 2007 64 per cent of all export revenues came from this sector. It therefore seems reasonable to assume that it is in the interest of the Russian leadership to maximize the export of oil and oil products. The Minister of Industry and Energy,

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1 Formerly Ministry of Industry and Energy.
2 Legislation and policies concerning railway, ports, and sea transportation, which indeed are important spheres for the oil sector. Igor Levitin is minister (2004-present).
3 Legislation and policies concerning foreign trade, investment policies, and regional economic development. Elvira Nabiullina is minister (2007-present).
4 Legislation and policies regarding natural resources and environmental policies. Jury Trutnev is minister (2004-present).
5 Legislation and policies regarding foreign trade and “energy diplomacy”. Sergey Lavrov is minister (2004-present).
Viktor Khristenko, has indeed stated that the energy sector is the engine of the Russian economy.¹

Europe is of particular importance for Russia, being its main market receiving more than 90% of the country’s oil exports in 2004. This direction of exports also has the most developed infrastructure for oil exports (Monaghan 2005, p. 9). One must also not forget that in Europe and in the rest of the world there is a strong demand for oil. In the EU 25 countries are on average dependent on about 80% of their total demand for oil in 1998-1999 (Liuhto 2003a: 3-4). A significant proportion – around 15-20% (2000-2005) - of all EU oil imports comes from Russia (Monaghan 2005: 8). The incentives for Russia to exploit the current demand from Europe are of course strong. But why the Gulf of Finland and not other export routes, such as the Druzhba pipeline?

One clearly stated goal is to accomplish greater diversification of oil exports by creating alternative routes. The construction of a new pipeline, the Baltic Pipeline System, and the new oil port of Primorsk should be seen in this light.² This option allows Russia to export oil from national ports, thereby avoiding the high costs of transit through former Soviet republics, such as Belarus, Latvia, and Ukraine. The ability to have secure and stable export routes that do not affect delivery safety have also been put forward as an argument for exporting the bulk of Russian exports through domestic channels. In January 2007 Putin stated with the recent energy conflicts with Belarus and Ukraine in mind that ‘considering the geopolitical changes we will very actively develop our transport system in a way that allows us to deliver oil directly to our oil customers‘ (Izvestiya, 22 January 2007). Northwestern Russia was mentioned as one of the directions of export diversification. Indeed, on the 15th of May 2007 Transneft received the go-ahead to initiate the plans for a second trunk pipeline in the Baltic Pipeline System (BPS-2).

However, although a new pipeline to the Gulf of Finland and new oil ports along its Russian shore has a clear economic rationale – to satisfy the European demand for oil – there also appear to be more political or geo-strategic reasons (see Larsson, 2006; Leijonhielm & Larsson, 2004; Laurila, 2003). A key goal, as implied just above, is to

¹ Stated in a presentation during the ―All-Russian Week of Oil and Gas‖ conference in 2004. Can be found at <www.mid.ru>.
² In this context one should also mention the ongoing construction of the Taishet pipeline to the Pacific Ocean, which is another prioritized project for the Russian government.
maximise the independence of Russia in the oil sphere.\(^1\) Russia’s pipeline system runs through a number of former Soviet republics, which nowadays are independent states with troublesome relations with Russia. This is seen as a problem by the Russian leadership because it infringes on the government’s freedom of action, not only economically, both also politically. The pipeline system, along with the country’s energy resources of oil and gas, may be used as levers vis-à-vis the “near abroad”\(^2\). Indeed, in the Energy Strategy of 2003 it is clearly stated that assistance to Russian energy companies abroad constitutes a part of Russian diplomatic mission. It is also declares that Russia’s international economic policy needs to be more coordinated with its foreign policy, and that the oil sector is a part of the country’s political interests in the world (Strategy 2003: IV: 7, VI: 2). This “energy weapon” becomes of course more effective if there is little mutual dependence and at the same time alternative export routes so that important customers can be served will others will be shut off. In 2006 the Minister of Industry and Energy Viktor Khristenko even stated that to maintain the pipeline structures solely on Russian soil strengthens the country’s defence capability (www.transneft.ru)\(^3\).

Economic and political factors are hence synthesized to form a basis for Russia’s foreign policy. One illustrative example of how the oil industry is intertwined with economic factors, foreign policy, and international relations is the decision in 2003 to stop all exports of oil products through the Latvian port of Ventspils after several years of conflict. The Russian state paid no less than two Billion USD a year in transit fees to the Baltic countries, which clearly illustrated the drawbacks of having no major oil ports of its own in the Baltic Sea area (Klasson 2005).

The general Russian rationale behind this line of policy was neatly summarized in Rossiyskaya Gazeta:\(^4\)

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\(^1\) To strengthen Russia’s independence is a general goal that stretches across the board. Russia should be governed solely by the Russian government and the Russian people without external interference (see further Konnander 2008).

\(^2\) The “near abroad” denotes first and foremost the former Soviet republics. Robert Larsson states that Russia has used the “gas-weapon” repeatedly on Belarus, Estonia, Georgia, Latvia, Lithuania, and Moldova during the last decade (Larsson 2006: 6).


\(^4\) Rossiyskaya Gazeta is a state-owned newspaper published by the Russian Federal Government.
While the Baltic countries felt they had a monopoly they could boldly raise the prices on transit. This money, this income from Russian oil, went to their budgets. Moreover, from a geopolitical point of view it is unbefitting (or even dangerous) to depend on countries that are, diplomatically speaking, not too friendly. Finally, ports entail thousands of employments. Why should Russia sponsor working opportunities for the Baltic countries? 

(Rossiyskaya Gazeta, 14 June 2006)

In 2008 Putin stated that the Baltic ports would practically not be used anymore (www.premier.gov.ru). The port of Primorsk would help Russia retain maximum independence. Also, stopping oil exports along this route might have been a way of punishing Latvia for the treatment of the Russian minority by Latvian state authorities. The Baltic Sea export alternative could therefore help the Russian government to kill several birds with one stone. Indeed, since 1998 the use of foreign ports for oil export has dropped from 75 per cent to only 13 per cent (Ust-Luzhskii Filial FGUP Rosmortport 2009).

In sum, then, one can conclude that the President, the Presidential Administration, and the Federal Government have an interest in maximizing oil exports in that it constitutes a vital proportion of the country’s revenues. On the other hand there are geo-strategic goals: to maximise the country’s independence and to diversify the possible export routes. These interests are not always fully compatible with economic ones, and sometimes clash with the interests of other significant actors within the Russian oil sphere as will be further illustrated below. However, there are no major obstacles with regard to the use of export facilities in the Gulf of Finland.

3. The Regional Executive: Securing the Regional Budget

Although the regional leaders have lost much of their power in the last decade, as described above, they are in some cases able to exert influence in the oil sphere. In the upstream sector Bashkortostan and Tatarstan hold majority stakes in Bashneft and Tatneft respectively. It is
also emblematic that Aleksey Filipenko participated in the above-mentioned meeting (see table 1) since he is the governor of Khanty-Mansiysk, where some of Russia’s largest oil fields are situated. The Leningrad region, where Primorsk, Ust-Luga, and other important export ports are located, has also become increasingly important for the midstream and downstream sector.

For the regional executive leaders the location of oil ports and the outline of the pipeline system are important mainly from an economic perspective. A large oil port or a pipeline may bring tremendous incomes to the regional budget. In this regard the city of Saint Petersburg, the Leningrad region, and the Murmansk region are important actors because they all have a stake in the oil export sphere due to their geographical position as coastal regions in the Russian Northwest. Naturally, the oil port of Primorsk is by far the most significant thanks to its high capacity. All the major Russian oil companies, among others TNK-BP, Gazprom-Neft, and Lukoil, use this port (http://mbsz.ru). According to Vadim Gustov, Chairman of the Leningrad regional executive from 1991 and Governor of the Leningrad region in 1996-1998, the Baltic Pipeline System was in fact a regional initiative. Making common cause with St. Petersburg Governor Anatoliy Sobchak, he managed to convince President Yeltsin and Prime Minister Viktor Chernomyrdin to start the project (Argumenty i Fakty St Petersburg, No 52, 2001).

By locating Primorsk and a number of other new oil ports (Bukhta Batereinaia, Ust-Luga, Vistino, Vysotsk and Vyborg) in the area the regional gross product has increased significantly in the last years. In September 2004 the Chairman of the transport committee in the Leningrad region, Mikhail Petrov, stated that during the first six months of 2004 maritime transport had generated 125.3 million rubles directly to the regional budget (Morskoi Biznes, 1 September, 2004). In 2005 the vice-governor of the region, Grigorii Dvas, estimated that the incomes would grow even more when the fiscal system is reformed. In the long-term oil transports will constitute one of the major sources of income for the region (Worldenergy, No 6, 2005).

An important optional export route to the Baltic one is the Murmansk region. However, little has been done to develop this direction. It goes to show how the regional leaders in many cases are quite toothless when it comes to influencing export policies. The former

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2 <www.worldenergy.ru>.
governor of the Murmansk region, Yury Yevdokimov, fought vigorously for the construction of a pipeline to the Kola Peninsula and of an oil port in Murmansk ever since a number of private oil production companies (Lukoil, Sibneft, Surgutneftegaz, TNK-BP, Yukos) offered to finance the project in November 2002. He criticized federal ministries and Transneft for their resistance against private investments in the pipeline system (see further below). He also argued that the Murmansk route is the most rational. Not only is it possible to avoid transit fees through Belarus and the Ukraine and to reduce dependency on Baltic ports, it would also be possible to improve export to other markets other than Europe. The distance to North America is shorter than from the Persian Gulf, which creates competitive advantages. The port of Murmansk can also take the largest oil tankers, which improves the economic rationale for exports to the U.S.

One would also avoid the technical and political problems connected to other routes. Both the Danish straits and the Bosporus passage are bottlenecks for ship traffic. Yevdokimov also mentions the potential political costs with the Baltic Sea receiving the status of “particularly sensitive sea area” (PSSA) (Interfax 24 September 2003; KSF.RU 8 October 2003; Ekonomika i TEK September 2006). One could also add that the Murmansk region is situated closer to some of the largest Russian oil deposits in Western Siberia and the Timan-Pechora fields. Moreover, the port of Murmansk is ice-free year-round and allows for the biggest tankers to dock, which is not possible in Primorsk. However, Transneft has actively opposed building a pipeline to Murmansk (see further below). Primorsk, owned by Transneft, therefore remains the main alternative.

4. Transneft: Maintaining the Monopoly

Transneft is a state-controlled company that has more or less monopoly over Russia’s pipeline system for oil and gas exports. The system

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1 In Ekonomika i TEK Yevdokimov elaborates on his position in great length (see [http://www.rusoil.ru/opinions/o09_06_38.html](http://www.rusoil.ru/opinions/o09_06_38.html)).
2 Due to the narrow and shallow Danish straits the Baltic Sea route allows only for tankers of a maximum 110,000 dwt. The Murmansk option allows for 300,000 dwt tankers (Hänninen & Rytkönen 2004: 39). Regarding the ice situation one could mention that in 2003-2004 only 34 vessels visited Primorsk due to thick ice (Hänninen & Rytkönen 2004: 48).
3 The Russian state owns 75 percent of its stock and 100 percent of its voting shares. In 2006 several representatives of the Federal Government were on the company’s
stretches over almost 49,000 km, linking Russia’s deposits of oil and gas to its clients in the formerly Soviet realm, Central, Eastern and Southern Asia, and Eastern and Western Europe. Its monopoly was further strengthened in April 2007 when another state-controlled pipeline company, Transnefteprodukt, which transported refined oil products, was purchased. The company execute more than 90 per cent of all transportation of oil within the country, and around 80 per cent of oil exports. The company also owns the port of Primorsk, and the Far-eastern port of Kuzmino that is currently being built. In addition, and perhaps most importantly, Transneft can also wield substantial influence over export quotas. The minister of energy, who formally decides on these issues, chairs Transneft’s board of directors. Of course, taken together these factors provide Transneft with considerable structural power, not only in the midstream sector, but also in the oil sector as a whole.

The main interest of Transneft has generally been to retain its monopoly. This ambition is based both on an economic and on a more geopolitical rationale, which reflects the inherent tension between Transneft’s role as an actor driven by commercial interests and the role as an instrument for the Russian government to influence the near abroad. The company’s economic interests derive from the fact that its incomes come predominantly from transport tariffs. This means that private ports or pipeline systems are seen as a threat. The case of Murmansk is perhaps the most revealing this regard. As mentioned above, in November 2002 a number of private oil companies offered to finance a pipeline to Murmansk. Initially the Ministry of Industry and Energy and Transneft declined the offer, arguing that such a large investment cannot be justified due to the limited need at this point (Rusenergy, 16 April, 2003; Abnews, 24 September 2003). Then in July 2003 the Ministry of Industry and Energy approached the Russian Government with a proposal to build a pipeline to Murmansk with a capacity of 150 million tons/year. In May 2005 Transneft rejected this alternative. Transneft’s CEO at the time, Semyon Vainshtok, even argued that it is the least viable option due to the construction costs (de Zardain 2005: 5).¹

¹ Statement at London congress in February 2005.
However, instead of using the Murmansk route Vainshtok offered to build a smaller port (allowing maximum 200,000 dwt tankers) in Indiga of Nenets Autonomous okrug; a solution that entails great problems with ice, and a governor, who has openly and repeatedly defied Kremlin. This seemingly irrational line of policy is nonetheless understandable if you consider that a new large pipeline and a major oil port in Murmansk would challenge Transneft’s monopoly and compete with the current supremacy of the company’s oil port in Primorsk. The same pattern has appeared in the case of Vysotsk oil port in the Gulf of Finland, which is operated by Lukoil. Transneft has even suggested the government to take over the terminal (Hänninen & Rytkönen 2004: 74).

The decision to build BPS was hence clearly in the economic interest of Transneft. It managed to gain full control of it shares from the very beginning (Kommersant, 30 August 2001). BPS therefore satisfied the interest of maintaining the company’s monopoly, while at the same time expanding the capacity of the pipeline system, which entails increased revenues. As acknowledged by Transneft, large parts of the pipeline system are terribly outdated and its capacity is insufficient. Only 7% of the pipelines are ten years or younger. A third is more than thirty years (Fredholm, 2005: 27). This has created several bottlenecks for the transportation of oil. The major pipeline, the Druzhba pipeline, has reached its maximum capacity, and so has the pipeline to the Black Sea and the oil port of Novorossiysk. The port of Novorossiysk also suffers from bad weather. In 2002 it was closed for 85 days due to storms. There is also the problem with the Bosporus Straits and Turkish limitations of freight ships and traffic jams (Hänninen & Rytkönen, 2004: 39).

The ambition to keep private actors out of the pipeline system and oil ports can also be explained from a more strategic point of view. More private export alternatives would lessen the opportunities to use energy export as lever for Russia’s foreign policy. Transneft’s monopoly over the pipeline system has been used to achieve both the goal of a more diversified oil export and to secure a higher level of independence by increasing the number of domestic oil ports. In several regards the stretching of the pipelines is far from optimal from the Russian perspective. As mentioned above, the country has become dependent on pipelines that run through former Soviet republics, such as Belarus, Latvia, and Ukraine. BPS was therefore perceived as a very attractive alternative by both the federal government and Transneft.
Economic and strategic interests are sometimes synergetic. In other cases there is a definite tension between them. The decision to switch the export route from the Latvian port of Ventspils to Primorsk can to a high degree be seen as a case of the former. One the one hand, the Ventspils’ tariffs were too high and that the pipeline was in great need of repairs. The vice-president of Transneft, Sergey Gieorgiev, has stated that repairing and upgrading the Latvian stretching of the pipeline would require large investments, and that the company was not prepared to invest in international projects over which it has no or little control (Telegraf, 2 June 2003). Also, the decision to close the pipeline to Ventspils was also most likely connected to the struggle over the control of terminal operators. Transneft was interested in buying shares in Ventspils port, which was up for privatization (Hänninen & Rytkönen, 2004, p. 48). It seems reasonable to assume that the company seeks to maximise its own profits (from transfer fees) by attaining control not only over the pipeline system, but also over as many export ports as possible.

One the other hand, the Ventspils-affair was also a good illustration that Transneft is an actor of geo-strategic relevance as well. In January 2003 when five of Russia’s largest oil companies, Lukoil, Yukos, Surgutneftegaz, TNK-BP, and Rosneft - wrote a petition to the Russian government to re-open the port of Ventspils in order maximize oil export capacity. It is interesting to note that even the state-owned company Rosneft was one of the signatories. Transneft’s vice-President Sergey Grigoryev responded to this petition: “the oil companies want to increase exports by any means and do not care about the interests of the country” (RFE/RL Reports, 14 January 2003)\(^1\).

The Murmansk case, by contrast, vividly demonstrates the tension between the economic interests and the geo-strategic goals. On the one hand, Transneft’s monopoly over the pipelines appears to be valued as a political lever. On the other hand, the possibility of reducing the number of bottlenecks and increasing exports to the U.S. must be appealing. One may note that President Putin and several representatives of the Federal Government continuously mention this route as one of the most promising.\(^2\) However, as argued above, to Trans-

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\(^1\) Quote from <www.strana.ru>.

\(^2\) See Putin’s state of the nation-speech in 2004. See also Khristenko’s, and other representatives’ presentations in 2004 and 2005 during the conference —"All-Russian week of oil and gas” and at an international seminar of OPEC in Vienna 2004).
neft, Murmansk is not an option because it endangers its pipeline monopoly.

5. State and Private Oil Companies: to Maximise Exports

State and private oil companies are important actors in the upstream sector as well as in the downstream sector. Despite the state offensive in these sectors in recent years the private companies together retrieved around half of Russia’s crude oil in 2007 (see table 2).

Table 2 – Russia’s Largest Oil Companies 2007 (share of total production)

<table>
<thead>
<tr>
<th>Oil company</th>
<th>Production</th>
<th>Share of Russia’s total production</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rosneft (state)</td>
<td>101 Million tons</td>
<td>22 %</td>
</tr>
<tr>
<td>Lukoil (private)</td>
<td>97 Million tons</td>
<td>19 %</td>
</tr>
<tr>
<td>TNK-BP (private)</td>
<td>81 Million tons</td>
<td>14 %</td>
</tr>
<tr>
<td>Surgutneftegaz (private)</td>
<td>64 Million tons</td>
<td>13 %</td>
</tr>
<tr>
<td>Gazprom-Neft (state)</td>
<td>33 Million tons</td>
<td>7 %</td>
</tr>
<tr>
<td>Tatneft (state, regional)</td>
<td>20 Million tons</td>
<td>4 %</td>
</tr>
</tbody>
</table>

(Author’s own calculation based on data from companies’ homepages)

As of 1st of June 2009 the Russian state owned more than 90 per cent of the shares in Rosneft. Vice Prime Minister, Igor Sechin, is chairing the board of directors. The company owns oil fields in Western and Eastern Siberia, Timan-Pechora, the Volga region, Sakhalin, and Caucasus. In the downstream sector it further owns seven refiner-

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1 If the production of Slavneft (in which TNK-BP own 50 per cent of the shares) is included, TNK-BP’s production amounts to 18 per cent.
ies, four port terminals\(^1\), and a tanker company (Rosnefteflot) (Fredholm 2005:29). The other large state-controlled company is Gazprom-Neft. It was formally known as Sibneft, but changed its name after Gazprom had bought a control share in September 2005. The company has oil deposits mainly in Western Siberia and no port facilities of its own.

Lukoil is the biggest private oil company in Russia and is dominated by its CEO Vagit Alekperov and vice CEO Leonid Fedun. Lukoil possesses reserves in Western Siberia, Timan-Pechora, and West of the Ural mountains. It owns several refineries and four port terminals\(^2\). The second largest private oil company is TNK-BP, which is the result of a merger of Alfa Aksess/Renova and the Russian branch of British Petroleum. Neither TNK-BP, nor Surgutneftegaz, which is the third largest private oil company, own port facilities.

One of the strongest concerns for the oil companies – private and state-controlled alike – is obviously to attain the most extensive and flexible infrastructure for oil transportation possible. As shown in table 3 below, around half or more of their oil production is exported.

**Table 3 – Production and Export of Crude Oil (2007)**

<table>
<thead>
<tr>
<th>Oil Company</th>
<th>Export (% of own production)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rosneft</td>
<td>59 Million tons (58 %)</td>
</tr>
<tr>
<td>Lukoil</td>
<td>42 Million tons (46 %)</td>
</tr>
<tr>
<td>TNK-BP</td>
<td>45 Million tons (46 %)</td>
</tr>
<tr>
<td>Surgutneftegaz</td>
<td>n/a</td>
</tr>
<tr>
<td>Gazprom-Neft</td>
<td>15 Million tons (45 %)</td>
</tr>
<tr>
<td>Tatneft</td>
<td>11 Million tons (67 %)</td>
</tr>
</tbody>
</table>

(Source: Annual reports of the respective company)

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\(^1\) Tuapse by the Black Sea; Arkhangelsk in the North; Nakhodka in the East; and one by the Caspian Sea in Kazakhstan.

\(^2\) Svetliy in the Kaliningrad region; Varendei by the Barent Sea; Vysotsk by the Gulf of Finland; and Astrakhan by the Caspian Sea.
The goal of the federal government to diversify export infrastructure to reach old and new markets fits like hand in glove for the oil companies. They of course saluted the BPS and the port of Primorsk because it increased the overall capacity for oil exports. However, the oil companies have rather limited possibilities to influence the oil transportation system. As shown above, only Rosneft and Lukoil have port facilities of their own. None of the oil companies owns any major pipeline systems. As a result all companies, and in particular the private ones, are highly dependent on Transneft, and indirectly the Federal Government, in order to secure their oil exports.

Earlier, in 2002-2003, there were attempts to put pressure on the federal government and the president to get rid of the bottlenecks within the Russian distribution system (among other things the Murmansk suggestion, and the Ventspils petition). However, since the Yukos affair in 2003 in particular private oil companies are careful not to cross the Kremlin. Both Lukoil and Surgutneftegaz have been described as loyal to the Kremlin and the Federal Government (Larsson, 2006: 153, 155). In fact, there have been signs of closer cooperation between state-owned and private oil companies. In March 2005 Lukoil and Gazprom-Neft signed a general strategic partnership and in May 2007 a memorandum regarding joint ventures (<www.lukoil.ru>^1). As of August 2005 Gazprom-Neft and TNK-BP split the crude output of the state-owned oil company, Slavneft, according to a 50-50 % scheme (<www.gazprom-neft.ru>; <www.tnk-bp.ru>).

However, it also seems that some companies are taking action to circumvent Transneft’s system to some extent. In 2005 16 % of Lukoil’s export bypassed the Transneft pipeline system. Lukoil has acquired 22 % of the shares of Murmansk commercial port (Liuhto, 2003b, p. 31). It has also constructed a pipeline from Western Siberia to Varandei Bay and owns a tanker fleet operating from this area (Liuhto 2003b: 21).

6. The Gulf of Finland: a Rational Option?

As shown above, the various actors in the Russian oil sector have different interests that sometimes work in tandem, and sometimes contradict each other. The analysis shows that economic, political, tech-

nical, and geographical factors link up in a way, which will make the Gulf of Finland and the Baltic Sea the main route for Russia’s oil exports in the short and medium term perspective. The interests of the key actors within the Russian oil sector harmonize, or do at least not contradict each other in this regard. The President, the Federal Government, the Leningrad region, Transneft, and state as well as private oil companies generally supported the construction of the Baltic Pipeline System, the oil port of Primorsk, and other ports in the area. By contrast, there is no corresponding alignment of interests that would support the potential export route through Murmansk.

For the Russian government the Gulf of Finland meets the goals of diversification and independence. These goals have both an economic and a more political and strategic aspect. Western Europe is still Russia’s main market. The westward route is therefore very important. The Druzhba pipeline is no longer the most viable option for oil export to the West. Not only is it in desperate need of repairs, it also runs through a number of countries, which entails economic and political costs for Russia. Murmansk is also not a politically feasible export direction in the short or medium-term perspective due to Transneft’s resistance. The Novorossiysk port by the Black Sea is also not optimal due to poor weather and traffic jams in the Bosporus. The pipeline constructions to China are not finished yet.

The export route via the Gulf of Finland, on the other hand, although it also entails several problems, kills several birds with one stone. This route lessens the country’s dependence on the transit countries, which is important considering the old conflict with Latvia and the more recent crises in the relations with Belarus and the Ukraine. Moreover, it diversifies the infrastructure for oil transportation that entails several benefits. By circumventing the transit countries Russia may exert influence without having to endanger its oil exports to the rest of Europe. Also, Russia can now avoid paying costly fees to the transit countries.

Another important factor was timing. Putin’s rise to power in 1999, taking into consideration his personal interest and conviction that the energy resources were important for the restoration of Russia’s economic and political status, coincided with rapidly increasing oil prices on the international market. Russia now quickly increased its revenues that could be invested in the infrastructures for oil exports. Moreover, once the choice had been made to settle for the Gulf of Finland it had a self-reinforcing effect. Indeed, Viktor Khristenko
stated in an interview in July 2003 that the Northwestern route is the cheapest to use since it is already operational (Kommersant, 5 July 2003).

Moreover, the Gulf of Finland direction helps maintaining Transneft’s almost complete monopoly over pipelines, which increases the company’s revenues. The company has actively opposed other routes, such as Murmansk and Ventspils, which in some way would lessen the company’s control. Using the pipeline monopoly as leverage against domestic as well as foreign actors is appealing also to the state. Indeed, the fact that the Murmansk option is not being developed despite some oil companies’ efforts further indicates that the Gulf of Finland will remain the main direction for oil exports in the nearest future. The diversification of the oil transportation infrastructure is also something that serves the interests of oil production companies. Private and state oil companies alike would like to see an enhancement of output capacity. The difference is that private companies support all possible options, also via the Baltic countries and Murmansk, whereas the state-owned are less likely to do so.

7. Economic and Environmental Interests at Odds: the Baltic Sea PSSA

The fact that the Gulf of Finland has become Russia’s new outlet for oil exports has had international consequences. Russia’s increasing use of the Gulf of Finland as a route for oil exports entails that the already busy Gulf of Finland, and in effect the Baltic Sea, will become areas of increasing maritime activity. This has raised concerns of mainly environmental character in the other states around the Baltic Sea. It is obvious that the countries in the region are facing a situation in which they are to reconcile strong economic forces with environmental safety while maintaining good international relations. In what follows some of the threats that the oil transportation causes to the environment are pointed out. Then the designation process of the Baltic Sea PSSA is briefly described and discussed.

It is estimated that by 2015 the number of ships (port calls) in the Gulf of Finland will have reached a staggering 52,740. This means that on average about 142 ships will pass through these waters every
day. Twelve of these ships will be oil tankers (Pelto, 2003: 9). More than 70 % of the tankers that leave the oil port of Primorsk sail further than the Gulf of Finland. More than half sail for Rotterdam\(^1\). This increases the risk of ship accidents followed by oil spills. Indeed, according to some estimates the risk of oil spills in the Gulf of Finland is increasing. If oil transportation in the Gulf of Finland indeed will reach 250 million tons/year, then statistically between four and five spills will occur each year (Pelto 2003, p. 16).

At present the growing number of ships in the Baltic Sea has made collisions the most common type of accident in 2006 (46 %), surpassing groundings (39 % in 2006) for the second year in a row. 52 % of the total number of collisions was ship-to-ship collisions. 59 collision accidents have occurred in the Gulf of Finland in 2000-2006, which represents roughly a fourth of all collisions in the Baltic Sea. In the Danish straits the number of collisions doubled in 2006 in comparison to 2005 and 2004. In relation to 2000-2003 the number of collisions has increased by six times. However, in the Danish straits groundings are still more common (www.helcom.fi)\(^2\).

At the same time, the risk of major oil spills should probably not be overstated. The Russian tanker fleet in the Baltic Sea is modern. The Russian flagged tankers have an average age of 3-5 years. Almost everyone has double hull or double sides, and ice classing of international standards (see Hassler, Knudsen, & Rodin 2006). Satellite navigating and anti-collision systems are in operation or under construction. Nonetheless, considering the risk of collisions due to heavy traffic, groundings in narrow waters, or difficult weather conditions with thick ice in the winter, a serious oil spill cannot be ruled out. Also, there are a small number of vessels sailing the Baltic Sea with Russian cargo that do not match international standards. Prestige, which went under outside the Spanish coast in 2002, and that had passed the Baltic Sea on its final voyage, was such a ship. Indeed, a number of accidents with serious consequences have already occurred, of which the collision between the Baltic Carrier and the Tern in March 2001 is the most well known.

Such accidents have serious consequences for the Baltic Sea. It is recognized that the Baltic Sea is highly vulnerable. It has shallow waters, cold temperature, and low salinity, which makes it sensitive to

oil spills because they decompose much slower. The Gulf of Finland is even more exposed than the rest of the Baltic Sea. Ice makes it harder to combat oil spills in the wintertime. Also, in case of an accident oil would quickly reach shore.

It is thus clear that there is a tension between political, economic, and environmental interests. On the one hand, Russia and many of the states surrounding the Baltic Sea share an economic interest to secure Russian oil and gas deliveries to the region. Russia has a legitimate interest in supplying oil products to the Western markets. On the other hand there are legitimate environmental concerns too. In 2001 Finland and Sweden started to promote the idea to make the Baltic Sea a "particularly sensitive sea area" (PSSA). A PSSA is an area that requires protection through action by the International Maritime Organization (IMO) because of its significance for ecological or socio-economic or scientific reasons and which may be vulnerable to damage by international maritime activities.\(^1\) The IMO Assembly approved the Baltic Sea PSSA in principle in April 2004. It received absolute approval in July 2005.\(^2\) The designation process of the Baltic Sea PSSA lasted 2001-2006\(^3\) and was filled with political controversies.

First, as the negotiations started to collapse in early 2003 the major sponsor states of the PSSA-proposal, Finland and Sweden, engaged in arena-shifting, turning to other arenas where Russia was not a member, such as the EU, the Nordic Council, and the Nordic Council of Ministers, where sufficient support was more likely to be found. A subordinate role for HELCOM in relation to EU was not desirable from the Russian perspective, as this would potentially turn HELCOM into merely an arena for implementing already decided (in the EU) (interview in at www.regnum.ru)\(^4\). In this way the EU-enlargement maintained Russia's dedication to HELCOM, although it was simultaneously quite critical to the operation of the organisation.

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\(^1\) The PSSA concept has no legal status. It is established by a non-binding IMO resolution without the legal firmness of an international convention. The legal "bite" of the PSSAs comes rather from the so-called "associated protective measures" (APMs), which are attached to the PSSA on territorial waters, exclusive economic zones, and even international waters.

\(^2\) The attached associated protective measures (APMs) entered into force on July 1\(^\text{st}\) 2006.

\(^3\) For further information of the Swedish perspective of the designation process of the Baltic Sea PSSA, see Uggla (2007). For a detailed general overview of the designation processes of the Baltic Sea PSSA see Knudsen (2007).

A second conflict concerned the formal procedure of the designation process of PSSAs. According to the earlier IMO guidelines for the identification and designation of particularly sensitive sea areas the designation may be made in two steps; first identifying the designated area and giving it the PSSA status, and secondly to assign APMs. The reason is that it creates a certain degree of uncertainty and lack of transparency. The parties concerned can never know in advance which APMs that will be attached to the PSSA in the future. Naturally, for those states that perceive they might be negatively affected by these measures this is a major drawback. IMO has recognized the problem of this two-step procedure and in November 2005 it decided that a PSSA proposal and the APMs attached to it should be presented as one package.

The deficiencies of the old PSSA guidelines were perceived to be so great that Russia (along with Liberia and Panama) proposed a stop to further proliferation of PSSAs until a revision of the guidelines had been made (MEPC 51/22, section 8.6). Russia and its allies\(^1\) also stressed the importance of proportionality of IMO measures and proposed that sponsor countries of PSSA designations should first compare the utility of IMO measures with other measures targeting land-based activities. Nevertheless, the Baltic Sea PSSA was designated according to the old guidelines. It is likely that the unpredictability and uncertainty that this approach entailed undermined any possible support from the Russian side, as they probably would not like to accept anything *in blanco*. It can therefore be argued that the designation process of the Baltic Sea PSSA potentially undermined its legitimacy (see Knudsen 2007).

A third stumbling block was the geographical scope of the Baltic Sea PSSA. In connection with the designation process of another PSSA encompassing large sea areas of Western Europe, the Western European PSSA\(^2\) a new practice began to take form. Instead of only limited maritime ecosystems in certain areas, whole sea regions were now proposed to become designated as PSSAs. The Russian response to the proposal was, as could be expected, negative. The Russian delegation argued that it could see no justification for a PSSA in the whole Baltic Sea, arguing that it is already well protected.

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\(^1\) BIMCO, ICS, INTERCARGO, INTERTANKO, OCIMF, and IPTA.

\(^2\) The Western European PSSA covers the Western coastlines of the Belgium, France, Ireland, Portugal, Spain, and United Kingdom, and from the Shetland Islands in the North to Cape Saint Vicente in the South, the English Channel and its approaches.
The IMO nonetheless approved in principle the proposal to make the entire Baltic Sea a PSSA. Russia viewed this outcome, and in particular the fact that the decision was made by a majority vote of sorts, against openly declared Russian interests, as contrary to the spirit and practice of IMO.

It can be argued that the designation process of the Baltic Sea PSSA did not only undermine the legitimacy of the PSSA-concept from the Russian perspective. There is also a risk that the process has tainted HELCOM and IMO as regime host organisations. Hence, at a general theoretical level it can be hypothesized that in a setting where regimes and regime host organisations overlap, or are nested in one another, low legitimacy in one regime or arena may contaminate adjacent ones.

8. Conclusions

Perhaps the main conclusion of this article is that oil sectors are characterized by a profound multiplicity at both the domestic and international arena. In order to understand how the outcomes of Russian oil sector, such as the drive towards the Gulf of Finland, one must acknowledge its pluralism, both in terms of the number of actors involved and in terms of diversity of interests. Contrary to common perceptions in mass media and sometimes in academia, and regardless of the fact that the Russian state has consolidated under Putin’s presidency, Russia is not a unitary actor ruled by one man in Kremlin. The picture of Russia as a unified actor, who speaks with a single voice, is flawed. Admittedly, Vladimir Putin has been important indeed. Nonetheless, the analysis of the Russian oil sector illustrates that the development of the Gulf of Finland becoming Russia’s major outlet for oil exports, while others have been remained underdeveloped, makes no sense unless one disaggregates the oil sector into individuals and organisations with disparate political and economic interests bounded by the structures of the upstream, midstream, and downstream sectors at the domestic and the international level.

The case of the Russian oil sector indeed uncovers the interconnectedness between the domestic and international arena that is emblematic for our globalizing age. How the Russian oil sector works, to whom the oil exports go, and along what routes, is an issue with bear-
ing not only on the Russian domestic economy and politics, but also on international relations, and not least the environment. This article hence supports Peter Katzenstein’s research that concludes that “the content of foreign economic policies result at least as much from the constraints of domestic structures as from the logic inherent in international effects” (Katzenstein 1976: 2).

As illustrated by the case of the Baltic Sea PSSA, the environmental risks created by international economic activities are increasingly met by regulation at both the regional and the international level. However, there are several challenges. First, there is often a tension between different regime principles, such as the one between “the freedom of the seas” and “sustainable development”. How can one create strong environmental regulation when two equally legitimate principles stand against each other? Russia has a legitimate interest to sell oil. Finland and Sweden have well-founded concerns for the environment. Asymmetric interests often make it difficult to find common grounds for effective regulation. Second, as shown above, conflicts about the design of regulation at the global, for instance the PSSA guidelines might have implications for the regional level. The case of the Baltic Sea PSSA also shows that there risk for a spread of regional controversies to the international level.

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Multi-dimensional Analysis of Macro Sustainability of Russia

Stanislav Shmelev

1. Introduction

Economic, social and environmental aspects of the development of Russia have been the focus of considerable research recently: Granberg et al (2002), Lvov (2004), Reteyum (2004), Kuzyk and Yakovetz, (2005), Belozerov et al, (2005), Glazyrina (2006), Ryumina (2007), Kalinichenko, Surovtsov & Shalabin (2007). The history of sustainability analysis in Russia goes back to the works of Konstantin G. Gofman and his colleagues who founded the Russian school of economics of nature management, or "ecological economics" as it was sometimes called by Gofman (Gofman 1998, Fischer-Kowalski 2007). Sustainability analysis of specific sectors of the economy like the energy sector that is currently the key driving force of the Russian economy has been undertaken in e.g. Aslanyan et al (2005), although social aspects of the development of the sector have been addressed only briefly. The current issues of sustainable development in Russia have also started to attract international attention (Oldfield 2001 and 2003). However, there is still a gap in research on a comprehensive macro scale assessment of sustainability in Russia, interpretation of the links among the different social, economic and environmental processes and effects as well as strategic forward-looking analysis from the point of view of multiple criteria. The sole priority of facilitating economic growth by doubling GDP is definitely limiting the sustainable development potential of the Russian economy.

Sustainable development, understood here as harmonious development with environmental limitations, is essentially a multidimensional problem. It involves simultaneous analyses of environmen-
tal, economic, social and institutional aspects of development of a state, a city or a region. The problem of sustainability at the macro scale has been addressed by many researchers: Daly and Cobb (1989), Daly (1994), Pearce and Atkinson (1993), Costanza and Patten (1995), Max-Neef (1995), Pearce, Hamilton and Atkinson (1996), England (1998), Hanley et al (1999), Neumeyer (2000, 2003, 2004), Lawn (2001, 2003). The alternative sustainability indicators like the Human Development Index (HDI), Adjusted Net Savings (ANS) and Index of Sustainable Economic Welfare (ISEW) have been developed. The Human Development Index (ul Haqu, 2003) is estimated for all countries of the world by the UN and is published in the Human Development Reports (UNDP, 2009). The Adjusted Net Savings (Pearce and Atkinson, 1993) is currently regularly calculated by the World Bank (World Bank, 2002). Adjusted net savings is an indicator of weak sustainability. The methodology of ISEW developed by H. Daly and J. Cobb (Daly & Cobb, 1989) has been applied to the United Kingdom (Jackson and Marks, 1994), Sweden (Jackson and Stymne, 1996), the Netherlands (Gerlagh et al 2002), Austria (Stockhammer et. al. 1997) and other countries. The methodology for the application of multi-criteria methods to environmental problems has been developed by Roy (1985), Janssen (1993), Munda (1995), Larichev (1979), Larichev (2002), Hovanov (1996) and other researchers. Recent applications of the multi-criteria methods to the analysis of sustainable development indicators can be found in Munda (2005), etc.

It should be pointed out that despite the value of single dimensional approaches to sustainability assessment (easy communication and use in policy making), there are fundamental problems highlighted in Martinez-Allier, Munda and O’Neal (1998). Such problems include the issues of incomparability of values – can environmental and economic goods be substituted for each other in principle? What are the limits of such substitution? Have the societies already reached these limits? Which production functions (Cobb-Douglas, CES type, etc) should be used to most accurately describe the use of natural and economic factors of production? Which weights should be used in such an assessment? There are also dynamic aspects to the problem. Discounting issues are a serious concern: can one discount environmental damages in principle? Are large damages done far in the future considerably less important that the damages done today? Apparently, we need to analyse the whole dynamic trajectory of development to understand the dynamics of sustainable development. Some of these issues were addressed by Shmelev and Labajos-Rodriguez (2009).
In recent decades, Russia has undergone dramatic structural economic, social and institutional changes. These changes included freeing of prices, reviving the entrepreneurship tradition, elimination of the previously substantial state support for science, attracting foreign direct investment, development of the resource extraction based economy, relaxing terms and condition for international trade. Furthermore, the initial dramatic deterioration was followed by a slow recovery in the level of consumption and quality of life, and an introduction of a flat tax rate in 1997 accelerated the growing gap between the rich and the poor. Joining Kyoto Protocol in 2004, a government commitment on stabilizing CO₂ emissions, high rates of economic growth in the past several years, and declining life expectancy are added complexities in the development of the Russian economy.

Against this backdrop, it seems crucial to assess the progress of Russia towards sustainability by taking a "systems" or "holistic" perspective. This article will provide an overview of economic, environmental and social aspects of the development of Russia over the past two decades, and will explicitly analyse the sustainability of Russia’s development. The multi-dimensional development path of Russia will be assessed with the help of multi-criteria methods and an analysis of the complex trends and causes of unsustainability will follow. The application of multi-criteria methods could help in the analysis of trade-offs among economic, environmental and social priorities.

The argument is that the relative neglect of environmental and social aspects of Russian development has, and continues to have, long-term sustainability consequences. The spatial aspect of the development of Russia not adequately addressed in the past is yet another challenge, which has not been addressed adequately in the past.

2. Existing Approaches to Measuring Sustainability

First, the aggregate sustainability measures such as HDI and ANS will be discussed, followed by a detailed analysis of the economic, environmental and social aspects of Russia’s development. It should be underlined that such aggregate methods assume that the component indicators are perfect substitutes, and a large progress in one of them can compensate negative tendencies in many others. Such a peculiarity is masking the existing multi-dimensional nature of the development process. It is for this reason that the author suggests new meth-
ods for the assessment of progress in the field of sustainable development based on the application of multi-criteria methods. The article will conclude with the application of a multi-criteria assessment tools and the analysis of multi-dimensional development trends.

Human Development Index

Human Development Index (HDI) is a composite measure assessing achievements in three main areas of human development: life expectancy, measured with the help of the life expectancy at birth index; education, measured with the help of adult literacy index; and good quality of life, measured with the help of real GPD per capita at PPP (ul Haq 2003). It should be noted, that this paper uses statistical data from 1980 to 2007 supplied by the Russian Government to the UNDP (UNDP 2009). The data on the component indices for 2006 was not available.

The tendencies of change in HDI in Russia were characterised by a substantial drop from 0,858 in 1991 to 0,804 in 1993 and a minimum of 0,747 in 1997. Starting from 1998 a moderate growth in the HDI in Russia is observed, and in 2007 its value reached 0,817 (this is the most recent data available for this paper) (UNDP 2009). It is insightful to see how the changes in HDI are determined by the changes in the indices composing it. The growth in HDI from 1998 was observed against the background of the continuing decline in the life expectancy index; however the dynamic growth in GDP and the moderate increase in the education index have led to the general change in the trend and the positive dynamics of the Human Development Index. It should be noted that from the 28th place in the world in 1980 and 34th in 1990, Russia dropped to 52nd place already in 1992 and reached an absolute low in 1995 (72nd place). In 1999, Russia occupied 55th place, in 2000 – 60th, in 2002 – 57th, but unfortunately in 2005 goes to down to 67th and reaches 71st place in 2007. The following countries are slightly higher than Russia according to their level of development in 2007: Albania, Belorussia, Rumania, Bulgaria, and Malaysia; while the following countries are slightly lower: Macedonia, Brazil, Columbia, Peru and Turkey. The position of Russia is considerably worse than the position of Poland, Slovakia, Hungary, Lithuania, Argentina, Chile, Mexico and Venezuela. The position of Russia is better than the position of Ukraine, Georgia, Iran, Thailand, China, Jordan, Tunis, Gabon, Algeria, Indonesia and Mongolia.
Human Development Index of Russia for the period from 1980 to 2007 according to the UNDP reports can be seen in Fig. 1.

Figure 1. Human Development Index in Russia, 1980-2007 and its constituent components. (United Nations).

It can be seen that full compensability between the GDP, life expectancy and education determined the change in the trend when the growing GDP and education outweighed declining life expectancy. The complexity of the development pattern in HDI, therefore, was hidden in the linear aggregation procedure. If the incommensurability of values considered here (education, economic growth and life expectancy), their different nature and different units of measurement are taken into account, the complexity of the development pattern is brought into the light. The overall choice of the set of indicators becomes a very important factor, since the number of criteria and the composition of the set will affect the assessment of the development trend.
Adjusted Net Savings

Adjusted net savings, an indicator of “weak sustainability”, denotes the level of capital that is accumulated within the economy less the depreciation of both produced and natural capital and environmental damages. “Weak” sustainability assumes that any type of capital is perfectly substitutable for natural capital as an input of production. From the adjusted net savings point of view, for example, a nation which reinvested all of its profits from the exploitation of non-renewable natural resources in the formation of human capital through its educational system would have imposed no net opportunity cost on the country’s future citizens. (World Bank, 2002).

Figure 2. Adjusted Net Savings, Russia

As can be seen in Fig. 2, the Adjusted Net Savings in Russia declined from 1995 to 1998, which was determined by the decline in gross national savings, increase in the consumption of fixed capital, net forest, energy and mineral depletion, and CO₂ emission. Since 2000, a tendency for the ANS to increase has been observed, but even in 2004 its value has not gone above 0, which can be characterised as
a struggle to minimize the unsustainability levels; starting in 2005 the decline deteriorated. The most recent data of 2006 characterise the situation as critical. The situation with ANS worsened only in 1998 and 2000, if one considers all 12 years from 1995 to 2006.

If the issue of incommensurability of values is given serious consideration, it becomes apparent that the growing GDP and declining life expectancy cannot be considered equal substitutes. There is a clear need for the development to be both beneficial for the economy and not destructive for the population and the environment. This requires application of new methods of strategic policy analysis and decision making. The use of multi-criteria methods seems to be beneficial for such analysis for the following reasons: multi-criteria tools allow simultaneous consideration of several development objectives, interaction between decision makers and the decision support systems allows one to gain deeper understanding of the links between different parts of the systems and emergent properties of the system. Multi-criteria tools are capable of showing the trade-offs among the often conflicting priorities and provide rankings of scenarios or alternatives based on the multi-dimensional preference relationships.

3. Spatial-Temporal Aspects of Development

The ensuing sections below provide a spatial-temporal overview of the development of Russia over the past two decades.

The trend in GDP growth has been seen by most observers as a positive tendency. The growth of the internal economy after the 1998 crisis helped to overcome the consequences of the reforms and contributed to poverty alleviation. However, if one considers the structure of production starting in 1990, it is possible to notice serious changes: a sharp increase in the share of wholesale and retail trade, and decline in the share of agriculture and industry. At the same time, the growth in informal economy has been observed, its share reaching 22-25% in 2000.

Let’s consider the tendencies in domestic extraction of renewable and non-renewable resources in Russia (Shmelev, Giljum, 2004). The Domestic Extraction in Russia has declined from 5.9 billion tones in 1992 to 4.3 billion tones in 1998, but picked up since and reached 5.0 billion tones in 2002, which largely reflects the peculiarities of economic growth in Russia led by resource extraction.
Atmospheric CO\textsubscript{2} emissions in Russia have been growing constantly since the end of the Second World War until 1980, with a mild decline in since. From 1989 and, particularly from 1990-1991, CO\textsubscript{2} emissions started to shrink, which was caused by the decline in the production levels and the structural change in the economy. A historical minimum of the level of emissions of 1998 is comparable with the level of emissions between 1969 and 1970. Since 1999, emissions started to increase again, but by the year 2002 have not exceeded the 1996 levels. As a whole, the existing tendency could be characterised a positive one, however having declared the goals to double Russia’s GDP without the proactive introduction of energy efficiency measures, and also gradual transition to the renewable energy sources, Russia could face difficulties in meeting the Kyoto protocol targets and subsequent commitments.

Social issues have been one of the most pressing problems for the Russian Federation over the past two decades. The dramatic fall in life expectancy (BMJ, 1993) has been attributed to the worsening incidence of heart disease, an increase in infant mortality and a rise in the numbers of deaths due to trauma. Of these three the most severe rise has been in trauma, which includes industrial and car accidents, suicides, killings, military accidents and poisonings. Analysts link many of these to the increased tension within the society due to loss of jobs, restructuring of the economy and difficult psychological conditions in the society.

The Gini Index of income inequality (measured for earnings) in Russia increased from 0.26 in 1991 to 0.409 in 1994 (larger values of the index correspond to the larger inequalities between the rich and the poor). After a brief decline to 0.375 in 1996, the Gini Index went up to 0.4 in 2003, reaching 0.406 in 2004 and 0.423 in 2008. Therefore, in this aspect Russia moved from the level of the present day Austria, Luxembourg and Finland to the present day Moldova, Ukraine approaching the level of China, Turkey, United States, and Uruguay.

Unemployment rate in Russia climbed up from 5.2% in 1992 to 13.3% in 1998, and then decreased again to 7.8 in 2004. Inflation according to the official data was always lower than that in Poland and approximately the same as in Ukraine.

The development of the Russian economy is characterized by extreme unevenness if the spatial dimension is considered. The most prosperous regions are Moscow city, Moscow region, the oil and gas producing regions in the Urals and Siberia, and St Petersburg. The
difference between the gross regional product in the most prosperous Moscow city and less developed parts of Russia exceeds 100 times.

In the environmental dimension, the spatial diversity is also considerable with differences in total atmospheric emissions from stationary sources reaching 100 times the level among certain regions.

4. Application of Multi-criteria Methods

Taking the UN Sustainable Development Indicator Framework as a starting point, we have decided to apply a multi-criteria assessment method to analyse the sustainability of the multi-dimensional development path of the Russian economy.

The Analysis and Synthesis of Parameters under Information Deficiency (ASPID) method, developed by Hovanov (1996) is based on the Bayesian model of uncertainty randomization. It is designed to compare complex objects, given a range of criteria describing their performance. To generate the set of weights used in the assessment, it takes into account non-numeric (ordinal) information on weight-coefficients values determined by a system $OI(w) = \{w_r = w_s; w_u > w_v; \ldots\}$ of equalities and inequalities for weight coefficients (indices $r, s, u, v$ take values from set $\{1,2,\ldots,m\}$); non-exact (interval) information on weight coefficient values determined by a system $II(w) = \{a_j \leq w_j \leq b_j; \ldots\}$ of inequalities and equalities (when $a_j = b_j$) for weight-coefficients (index $j$ takes values from set $\{1,2,\ldots,m\}$ and non-complete expert knowledge. The final result of the assessment can be described as an ordering of analysed objects by estimated degrees of quality under evaluation (sustainability in our case). Therefore, within the framework of assessment, given the expressed priorities, the relationships of domination (in the sense of the chosen criteria set) emerge among the objects being assessed (the years of country’s performance in our case). The red and blue intercepts of a straight line, seen in the diagram, can be read in the following way: an abscissa of a midpoint of a red interval shows an average estimation of a correspondent object, while the interval’s length is equal to the doubled standard deviation of the constructed aggregated preference index; an abscissa of a blue interval’s right end shows the reliability for dominance relation between neighbouring aggregated estimations.

The method was applied to two sets of 3 and 8 sustainability criteria over the same time period (1995-2003). Relational information
on prioritizing different criteria determined the weights, and as a result randomized estimates of domination of certain alternatives over others were obtained. The total list of criteria considered is presented in Table 1.

Table 1. Sustainable Development criteria applied in the analysis of Russian economy

<table>
<thead>
<tr>
<th>Theme</th>
<th>Sub-theme</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td>Poverty</td>
<td>Gini Index of Income Inequality</td>
</tr>
<tr>
<td></td>
<td>Unemployment</td>
<td>Unemployment</td>
</tr>
<tr>
<td></td>
<td>Mortality</td>
<td>Life Expectancy at Birth</td>
</tr>
<tr>
<td>Environmental</td>
<td>Climate Change</td>
<td>Emissions of CO₂</td>
</tr>
<tr>
<td>Economic</td>
<td>Economic Performance</td>
<td>GDP per Capita</td>
</tr>
<tr>
<td></td>
<td>Energy Use</td>
<td>Annual Energy Consumption per Capita</td>
</tr>
<tr>
<td></td>
<td>Energy Use</td>
<td>Share of Consumption of Renewable Energy Resources</td>
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<tr>
<td>Institutional</td>
<td>Science and Technology</td>
<td>Expenditure on Research and Development as a Percent of GDP</td>
</tr>
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</table>

Dynamic Analysis
First, the ASPID was applied in the case of three basic sustainability criteria: GDP per capita, CO₂ emissions and life expectancy, representing economic, environmental and social dimensions respectively (Fig. 3-4). The years from 1995 to 2003 were considered, which is represented on the vertical axis of the diagram. In each assessed scenario a set of assumptions was used to illustrate the current policy priorities in the form of preference equalities and inequalities set.

The following priorities reflecting the current policy trend were first set: GDP is more important than life expectancy, GDP is more important than reduction in CO₂ emissions, reduction of CO₂ emissions is more important than life expectancy. Such a set of priorities characterizes the real development priorities in Russia.
It can be seen in Fig. 3 that the year 2003 dominates over the year 2002, the year 2002 dominates over 2001 and so on, and therefore an overall positive trend starting in 1999 could be seen. It should be underlined that this positive trend appears under specific conditions of the relative importance of criteria, namely the priority of GDP over life expectancy and CO₂ emissions reductions and priority of CO₂ emissions reductions over life expectancy.

If, however, the different and more humanistic set of policy priorities is chosen as opposed to the more technocratic one (Fig. 4), i.e. life expectancy is considered to be more important than GDP, the reduction in CO₂ emissions is seen as more important than GDP, and life expectancy is perceived as more important than reduction in CO₂ emissions, then the trend is reversed, and the most sustainable years in this setting are 1997 and 1998.
In the more detailed analysis, the following 8 criteria were taken into account: economic – GDP per capita, Total Primary Energy Supply (TPES) per capita, share of renewables; environmental: CO₂ emissions; social: life expectancy, GINI index of income inequality, unemployment rate, and institutional: investment in R&D.

The first case (Fig. 5) illustrates a current policy priority scenario: GDP growth is more important than life expectancy and CO₂ emissions. As can be seen from Fig. 5, given the assumptions above, the “sustainability trend” appears to be positive up until 2003 with more recent years dominating the previous years.

If, however, a different pro-environmental and more humanistic set of policy priorities is assumed – an increase in life expectancy and reduction in CO₂ emissions to combat climate change are more important than GDP growth, etc. – then the picture becomes quite different (Fig. 6). And now the years 1997 and 1998 dominate the other years, and a decline in sustainable well-being is observed since 1998. It should be noted that due to the larger number of criteria in the extended set, the uncertainties in domination, represented by the length of the white lines around the probabilities, are considerably higher.
Spatial Setting

Spatial data presents another important aspect of sustainability analysis in the Russian context. Large disparities between Russian regions in the value of the gross regional product, life expectancy and CO₂ emissions make spatial sustainability assessment an interesting and worthwhile exercise. We will show here two major results that correspond to the priorities set in the dynamic assessment: emphasis on life expectancy and emphasis on economic output. It is interesting to note that if life expectancy is taken as a primary sustainability criterion, the first ten most sustainable regions are: Ingushetia, Dagestan, Moscow, Kabardino-Balkaria, Karachaevo-Cherkessia, Severnaya Ossetia, Belgorod Oblast, Adygeya, Stavropol Oblast and Krasnodarsky Kraj. If economic output is taken as the most important criteria, then the Tyumen region (where a large proportion of the natural resources is mined), Moscow (where the taxes are collected), followed by Tatarstan, Lipetskaya Oblast, Ingushetia, Tomskaya Oblast, St Petersburg, Omskaya Oblast, Belgorod Oblast and Dagestan become the leading regions in terms of sustainability. The results of the analysis allow us to conclude that the development of Russian regions is characterised by extreme unevenness. Depending on the chosen set of priorities, different regions appear as more sustainable in the rating.

In this light, it seems extremely important and desirable to undertake similar regional assessments using larger criteria sets including crime rates, income differentiation, unemployment, emissions of other substances other than CO₂, resource use, generation of waste, consumption of energy, the share of renewables in the energy mix and other sustainability indicators.

The methodology presented here could help to highlight regional problems that need to be addressed and find the regional sustainability leaders that need to be supported. It should be underlined that such application of the multi-criteria methods for the analysis of dynamic tendencies of sustainable development in the Russian context is undertaken for the first time.
Figure 5: Assessment results: 1995-2003, 8 criteria: Current policy priorities

Figure 6: 1995-2003, 8 criteria: More humanistic policy priorities
5. Discussion

The simultaneous treatment of many conflicting priorities is a challenge that many national governments and international organisations are facing today.

We have seen that the positive trend in the Human Development Index coupled with the increasing but still negative values of Adjusted Net Savings, as well as trends in the different additional sustainability criteria based on the United Nations sustainable development indicators framework, create a multi-faceted picture of the development of the Russian society complicated further by the enormous regional disparities.

Specific policy priorities, as was shown in the paper, can determine the result of the evaluation of progress”, the interpretation of which rests heavily in social consensus and shared values. We have seen that placing more emphasis on the social aspects of development, such as longer and healthier life and reduction of income inequalities, as well as the environmental aspects, such as cleaner air, climate change mitigation, increased deployment of renewable energy technologies, and contribution towards the global sustainability as opposed to the increase in the GDP, changes the interpretation of the progress that the society experienced in a particular time frame. Therefore, the hierarchy of policy priorities that are supported by the given society or international community can stimulate a pattern of more or less sustainable development.

The solution to the current critical situation seems to be the following: the growth in education expenditure, increase in the governmental and stimulation of the private investment in the national economy; the use of cleaner technologies (minimization of CO₂ emissions), a transition to more extensive use of renewable energy (minimisation of natural capital depletion in the long run), as well as more efficient use of energy in different sectors, development of sustainable waste management systems, capable of returning valuable resources in the economic circulation and thereby reducing environmental impacts.

It can also be seen in the assessment that the increased number of criteria bringing relevant dimensions in the evaluation framework further increases the degree of uncertainty in the domination of particular periods of assessment over others, which is depicted in the length of the bars around the probabilities of domination in respected charts. Application of multi-criteria assessment methods, therefore, can be a
valuable tool for policy analysis and help deal with high levels of complexity in a sustainability assessment problem. Such assessments can stimulate the debate on the nature of sustainability, the vector of development of particular countries or regions and improve understanding of the links among the constituent parts of the multidimensional evolving economy-society-environmental system.

Thus, the proposed approach offers a comprehensive framework for the assessment of sustainability at the macro level and could provide necessary support for policy makers in establishing priorities for development as well as evaluation of progress in a multi-dimensional setting. In the context of the evolving economy of Russia, it seems that more emphasis is needed on the elicitation of social preferences and democratic articulation of different interests within a society, so that social and environmental issues would become equally as important as the speed of economic development and the true sustainability of development could be secured. The proposed model also illustrates the need to conduct active policy in the fields that are the areas of relative “unsustainability” in Russia. Additional measures to reduce the gap between the rich and the poor should be undertaken, for example with the help of progressive taxation system; active government investments in the science areas should support and develop the research potential, additional investment should be directed towards the development of the health care system, the development of the environmental management systems, including the preservation of forests, development of the waste management systems, development of renewable energy systems, as well as creation of the environment, capable of securing the increase in life expectancy. It is our hope that Russia could achieve more progress in the field of sustainable development.

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Appendix 1. Economic Criteria

GDP per Capita, Constant 2000 USD

Intensity of Material Use: Domestic Extraction, mln. t
Appendix 2. Environmental Criteria

### Emissions of CO2, Mt

![Graph showing emissions of CO2 from 1990 to 2003.](image)

### BOD in Water Bodies

![Graph showing BOD in water bodies from 1990 to 2003.](image)
Appendix 3. Social Indicators

Life Expectancy at Birth

Gini Index of Income Inequality

Unemployment Rate, %
Environmental Dimension of Oil Extraction in the Baltic Sea Region

Irina Shmeleva, Nataliya Butkute

The Baltic Sea region includes all states bordering the basin. The countries of the region are not homogeneous in their economic, political, ethnic and cultural characteristics. The member countries of the region are Russia, Sweden, Finland, Lithuania, Latvia, Estonia, Germany, Poland and Denmark. As stated by Kern and Löffelsend (2004), after the end of the Cold War the Baltic Sea region developed into a highly dynamic area of cross-border cooperation and transnational networking. The enlargement of the European Union (EU) by ten new members in 2004 has reinforced this trend.

The ecological quality of the Baltic Sea has changed dramatically in recent years. The Baltic Sea is considered one of the most polluted seas in the world. It has a very high anthropogenic influence; for example, there are about 40 oilrigs that pump over 180 million tons of oil per year.

As Hassler points out, the volume of maritime oil transportation has increased tremendously in the Baltic Sea during the last decade. The major reason for this steep rise is Russian export from ports in the St. Petersburg/Leningrad region in the Gulf of Finland. According to Helsinki Commission (Baltic Marine Environment Protection Center, HELCOM) it has been estimated that more than 130 million tons of oil will be transported in the Baltic Sea in 2015. Bulk and container transportation are expected to increase by about 300% in the period 2003-2017. In the early 2000s, Sweden and Finland suggested that the Baltic Sea should be classified as a so-called Particularly Sensitive Sea Area (PSSA) and formal decisions to designate sea areas as PSSAs are taken by International Maritime Organization (IMO), in accordance to its Resolution A.982. Eventually, all Baltic Sea areas except for Russian territorial waters were classified as a PSSA in 2004, becoming valid by July 1, 2006 (Hassler, 2009).
About 1000 ship accidents happen in the Baltic Sea every year, where one in five accidents have resulted in oil spills. For example, 275,641 cubic meters of oil spilled in the years 2000 and 2001 (Pikšrys 2009). According to the reports from the Contracting States there were 374 ship accidents in the HELCOM area in 2000-2004 (HELCOM, 2006).

The Baltic Sea is now surrounded by EU member states with the exception of Russia. Under such conditions, European integration seems to offer a real chance to clean up the polluted Baltic Sea. However, the region is still divided into two parts: while the Nordic countries and Germany are considered environmental pioneers, Poland and the three Baltic republics still lag behind European standards and face serious environmental problems. Thus, close cooperation between the countries and new forms of governance are necessary for the cleanup of the Baltic Sea as a common good and for the sustainable development of the entire region (Kern & Löffelsen 2004).

According to Kern and Löffelsen, the recent strong tendency towards integration in the region could be explained for several reasons: ending of the global confrontation of two political systems accompanied by the formation of new states; global initiative within the UN to protect the environment (for example, the UN Conference in Rio de Janeiro in 1992); and the progress of the European integration that led to the inclusion of Sweden, Finland, Latvia, Lithuania, Estonia in the EU.

It is often considered that the process of environmental protection in the Baltic Sea region started with two conferences in Visby (Sweden) in 1969 and 1970. However, the existence of two antagonistic blocs was the major obstacle to establishing international agreements between countries. More than thirty years ago, various efforts were made to protect the Baltic Sea from the environmental damage. The Convention on the “Protection of the Marine Environment of the Baltic Sea Area” signed in Helsinki in 1974 (HELCOM) is an excellent example of cooperation in the region.

With the end of the Cold War, inter-governmental cooperation rapidly increased. Examples of this include the Council of Baltic Sea States (CBSS) founded in 1992, which aims to strengthen cooperation and co-ordination between the countries in the region; and the Vision and Strategies Around the Baltic 2010 (VASAB 2010), an intergovernmental programme of the countries in the Baltic Sea Region in the area for spatial planning and development.

In the early 1990s, the massive environmental problems in the former socialist countries became obvious and topped the regional
political agenda. Therefore, major regional cooperation efforts focused on environmental policy and sustainable development. International and intergovernmental cooperation increased rapidly during this period. In 1996, four years after the Rio Summit, the Council of Baltic Sea States (CBSS) finally initiated an integrative and participatory Agenda 21 process for the whole region (Baltic 21) which encompasses various sectors (such as agriculture or transport), and involves a large number of stakeholders.

The IMO’s Marine Environment Protection Committee decided to assign a status to the Baltic Sea as a Particularly Sensitive Sea Area (PSSA) at the meeting of the Baltic countries in London in March/April 2004. This decision facilitated special measures for protecting the sea from pollution (Vasilyeva 2008). In 2004, the PSSA status also was adopted by Sweden, Finland, Estonia, Latvia, Lithuania, Poland, Germany, and Denmark. Russia did not support the decision of the International Maritime Organization and is the only country out of the nine having access to the Baltic Sea and did not sign the agreement.

The Baltic Sea catchment area is not only populated densely, but also heavily industrialized. According to estimates of Uppsala University, there are about eighty million inhabitants living in the coastal zone of the Baltic (Academik 2009). The area between Berlin and Krakow is densely populated and industrialized, which is watered by the rivers Oder and Vistula. Neva, Vistula and Neman are the biggest three rivers of the region. There are also about 250 other rivers that run into the sea.

Most of the capitals of the region are situated on the coast of the sea including the metropolis of St Petersburg with a population of five million.

Concerning the issues affecting the ecological quality of the Baltic Sea, three main groups need mentioned: 1. the post-war chemical weapons dumped in the Baltic Sea; 2. a variety of oil sinks in the Baltic Sea and contiguous factors; 3. the presence of nuclear power plants in the region.

This paper focuses on the oil industry in the Baltic Sea Region since this economic activity is considered the main environmental problem today. Oil and gas extraction, the shipping industry, and port operations cause tremendous damage to the ecosystem of the Baltic Sea. The factors related to such activities and their negative impacts on the environment were highlighted in 1991 – ship accidents where
oil, chemicals and radioactive materials leaked out (see Backlund, Holmbom&Leppäkoski 1996: 14):
  • crash in the extraction of oil and gas - emissions, explosions, fires;
  • discharge of oil products, sewage from ships, operational discharges as illegal – prohibited tanks washing at the sea;
  • recurrent leakages from oil platforms;
  • spills during loading, unloading and other port operations;
  • flooding or burning of waste at sea;
  • boats and port constructions processing with organotin dyes.

Oil exploration and extraction poses great danger to the Baltic Sea. The oil well with 6-8 million tons of reserves was drilled 20 km from the Curonian Spit in Russian territory in 1976. In the south coast of the Baltic Sea, specifically in Lithuania, Latvia and Poland, exploration of oil is on the plans. An even greater threat to the Baltic Sea comes from the constantly increasing traffic in the volumes of oil products reading 100 million tons per year. This increases pollution of the sea by 30%. Oil disasters in the Baltic Sea are among the major occurrences in the world. The biggest environmental disaster in the Baltic Sea was an accident in 1981 when the tanker “Globe Assimi” crashed near Klaipeda port resulting in an oil spill of some 16,000 tons (Smailys&Tilickis 2001).

A chronology of the major oil disasters in the world are as follows:
  • March 1978 off the coast of Brittany-France the tanker Amoco Cadiz crashed with 280 thousand tons of oil on board. The oil spill reached the coast resulting in an environmental disaster for the region.
  • In June 1979, the petroleum platform "Ikstok-1" in the South of the Gulf of Mexico released 600,000 tons of oil released into sea. The Gulf of Mexico has been a zone of ecological disaster for several years.
  • In 1981, the tanker “Globe Assimi” crashed near Klaipeda port spilling 16,000 tons of fuel oil.
  • In July 1988, a major catastrophe in the history of the North Sea oilfields. A series of powerful explosions due to gas leakage destroyed the "Piper Alpha" platform in the North Sea some 120 miles from the Scottish coastline. 20 tons of oil spilled into the sea and fire lasted for 23 days killing 167 persons. More than 50 tons of chemicals were used daily to put the fire out.
  • In March 1989, the American tanker Exxon Valdiz carrying more than 900,000 barrels of oil hit a reef some 25 miles off the coast.
of Alaska. The American media described this incident as the largest environmental disaster in the history of the United States spilling over 240,000 barrels of oil. The oil slick spread across 2640 sq km contaminating 800 miles of coastline that was home to rare species of birds and animals, and cost about 3 billion dollars to clean up.

- In October 1997, two tankers from Cyprus and Thailand collided in the Strait of Singapore spilling more than 25,000 tons of oil into the sea across the Strait of Malacca. According to environmentalists, it was the biggest environmental disaster in the area.

- In January 2001, the vessel "Jessica" carrying 250,000 tons of oil ran aground at the entrance to the Bay Islands of San Cristobal. On 19 January, it keeled over and spilled about 150,000 tons of crude oil into the waters of the Galapagos Archipelago in the Pacific Ocean about 1000 km off the coast of Ecuador. The oil spill area was nearly 1,200 sq. km. Rare species of plants and animals at the Galapagos National Park suffered from ecological disaster.

- In November 2002, the tanker "Prestige" sailing under the flag of the Bahamas crashed off the coast of Spain in the Mediterranean Sea. On 19 November, the tanker broke in two and sank to a depth of 500 meters contaminating over 400 km of the coastline of Galicia spilling 20,000 out of the 70,000 tons of oil. The operation to pump out oil from the tanker was completed in September 2004. More than 2.5 billion Euros were spent to clean up the damage.

1. certain number of incidents regularly happen every year in the Baltic Sea. It was estimated that between 20,000–80,000 tons of oil is spilled into the sea every year. (Smailys&Tilickis 2001). From 1969 there were nearly 40 big accidents in the Baltic sea followed by the oil spill that exceeded 100 tons (Unified State System..). According to Baltic Matser (2006) major oil incidents in the Baltic Sea 1988 - 2003 resulting in an outflow of more than 100 tonnes of oil were as follows:

- In 1990 –Volgoneft” – 1,000 tonnes near Karlskrona, Sweden
- In 1995 –Hual Trooper” – 180 tonnes near The Sound, Sweden
- In 1998 –Nunki” – 100 m3 near Kalundborg Fjord, Denmark
- In 2001 –Baltic Carrier” – 2,700 tonnes Kadetrenden, Denmark
In 2003 –“Fu Shan Hai” – 1,200 tonnes near Bornholm, Denmark/Sweden

The growing intensity of shipping leads to a greater number of oil spills and release of harmful illegal substances by ships every year. An aerial surveillance show about 400 cases of illegal oil discharges into the sea per year. Some 150 to 200 tankers daily transport oil or oil products across twenty ports in the Baltic Sea. Furthermore, the number of vessels and their capacity increase, the likelihood of illegal discharges and the risk of accidental disasters also increase. Currently, ships carry between 100,000 and 150,000 tons of oil in the Baltic Sea. It is predicted that by 2015 the oil transportation in the Baltic Sea will rise by 40%. Contamination by oil products has the same effect on the ecology of the Baltic Sea, as well as to other seas. Oil spreads rapidly across the water. The oil pellicles prevent gas and energy exchange between the ocean and the atmosphere and thereby damaging living organisms. It is found that 20 – 2000 thousand tons of oil gets into the Baltic Sea every year, while the average concentration on the surface of waters ranges from 0,3 to 0,75 mg / l. Most of it enters into the water from tankers and oil extraction activity (Lithuanian Agricultural University 2010).

Gas transportation could also carry risks to the marine environment. Earlier, oil and gas pipelines in the Baltic region were built mainly over the land. The Nord Stream gas pipeline connecting “Russia and the European Union via the Baltic Sea” could be considered as a threat to the environmental quality of the Baltic Sea. The Nord Stream Company proposes to save the Baltic Sea environment by financing research for impact assessment on the marine ecosystem, clean the seabed of hazardous wastes, and monitor activities. (Nord Stream AG 2010). However, despite all these proposals and the use of advanced technology in the construction of the pipeline, it still poses a considerable threat to the Baltic Sea Aquatic Region.

As Kari Lihto (2003) mentions, the Baltic Sea Rim seems to be the dominating region in the Russian oil export policy at least in the mid-term and to him it is obvious that the Primorsk port will become the biggest oil terminal in the Baltic Sea. Until the Murmansk port is constructed, the oil exports via the Baltic Sea will rise. This in turn would increase a risk of oil tanker accident.

Let us consider some examples of oil production in the Baltic Sea in recent years: the oil company Lukoil on the Kravtsovskoye field (D-6) off the shelf of the Baltic Sea will be a starting point for analysis. This issue exposes the environmental, political and economic
problems of the Baltic region and their relations. We will also briefly look into the oil industry in Lithuania, as well as in coastal areas of Latvia and Poland for a broader picture of the oil situation in the region. We will then draw some conclusions about the issue of oil production in the Baltic region.

When a subsidiary of Lukoil announced its intention to extract oil in Kaliningrad, the project met with resistance from both the Russian organizations and Lithuania, and the other Baltic countries later joined in the discussion.

The oilfield D-6 Kravtsovskoye is located in the Kaliningrad region, 22 km from the coast on the shelf of the Baltic Sea. The distance from the oilfield to the Lithuanian border is about 5 km. The reserves in D-6 are about 24 million tons of oil and the plans are to extract 600,000 – 700,000 tons of oil per year over 25 to 30 years. As the chairperson Saulius Pikšrys of the ecological community ―Atgaja‖ stated, this volume of extracted oil is a drop in the ocean when compared to what Lukoil annually extracts. However, the pursuit of petrodollars from the D-6 threatens the security of the Baltic Sea, the Curonian Spit and the people living there.

It is important to note that D-6 is located near the Curonian Spit, which is a unique natural environment. In 2000, the Curonian Spit was included into the UNESCO World Heritage list. Following the negative assessment of the project, UNESCO’s World Heritage committee has plans to include the Curonian Spit in the list of World Heritage in Danger. However, in 2005, an agreement was signed between Russia and Lithuania avoiding the Curonian Spit from ending up on this list (UNESCO 2005).

The project on oil extraction was first discussed between Russia and Lithuania. Later, the rest of the European community joined in with various structures, representatives of environmental organizations and commissions to supervise the implementation of Baltic Sea conventions. Lithuania raised the issue of “D-6” at high-level meetings in all possible ways. The Ministries of Environment and Foreign Affairs had applied to about 30 occasions in all possible international organizations, among them were: UNESCO, Secretariat of the Helsinki Commission, Ministry of the Environment and the Ministry of Foreign Affairs of the Russian Federation, and the Lukoil concern. This issue has been put on the agenda at every session of the Lithuanian Seimas and the Kaliningrad Region Duma in 2002 and 2003 (Kirkilas 2003).
Gunnar Noren, the executive secretary of the Coalition Clean Baltic, claimed that they would require approval from the Helsinki Commission and the European Commission to stop the violation of international laws on environmental protection, such as Convention on the Protection of the Marine Environment of the Baltic Sea Area and the Helsinki Convention (Central and East European Bankwatch Network 2003).

The plans were to increase oil production to 600,000 tons by 2007 and keep this level until 2015. It is estimated that the lifetime of the field was between 30 and 35 years. Extracted oil passes through the Izhevsk terminal for exporting. The capacity of terminal tank is 120,000 cubic meters. The capacity of the terminal from the start of field D-6 was increased from 3.3 to 4 million tons. In the future, the terminal capacity could reach 6 million tons of oil and petroleum products per year. As the president of Lukoil, Vagit Alekperov, stated; “We are proud that our company managed to implement this unique project, it will strengthen Russia’s position in the Baltic region. The company once again has proved that Russian oil companies own the most modern technologies and achieve impressive results. The beginning of the field "Kravtsovskoye" will lead to doubled extraction of oil in the Kaliningrad region; it will increase the total exports of the region and will improve its trade balance” (Alians Media 2004).

It is interesting to note that a number of Kaliningrad scientists supported the project –D-6” by stating that it does not carry any threat to the environment of the Baltic Sea (Kadshoyan 2007) – according to a weekly socio-political newspaper of Igor Rudnikov (Deputy of Kaliningrad Regional Duma and Member of the Committee for Law, Order, Security, International and Interregional relations). Moreover, if environmental scientists support such projects, then it is meaningless to about protection of the environment from business. The same article from the newspaper Novyie Kolesa claims that scientists rated the ecological status in all of twenty Lukoil fields as excellent; they often cited the Gulf of Mexico as an example where despite intensive extraction of oil, pollution decreases from year to year.

Nevertheless, we need to take into account two obstacles. First, the list of the main oil disasters on the sea surface, and second, the disaster that occurred in the Gulf of Mexico in 2010.

Only a few years since the publication of the article the situation in the Gulf of Mexico has dramatically changed – the explosion of a drilling platform in April 2010 where they are still not able to stop the
According to ITAR TASS (27 July 2010), the accident at BP oilrig in Mexico, which has led to a catastrophic loss of oil, has proven that the present United States energy policy is not viable. This statement was made by the head of the American administration, Barack Obama, speaking to journalists in July at the White House after working meetings with the leaders of the United States Congress. According to President Obama, the meeting discussed among other things the need for energy reform”. As expected, the Senate will vote in the Congress on this issue before summer vacation in early August for moving a bill responding to BP oil leak and creating new jobs in clean energy”.

From the point of view of the American President, the law would be an important step in the right direction... If we have learned something from the tragedy in the Gulf of Mexico (Mexican), it is that our current energy policy was unsustainable”. He stressed that the United States cannot afford to do nothing when there is growing dependence on foreign oil.

Meanwhile, BP has been engaged in the Russian oil industry for years. Russia today is the second largest oil and gas producer after the United States and the financial situation of BP depends on whether the company will manage to keep its position in the Russian oil industry.

TNK-BP is fully, vertically integrated company. It is the third largest oil producer in Russia and is among the top ten largest private oil companies in the world. The company was established in 2003 because of the merger of oil and gas assets of BP’s Russian oil and Alfa Access’ gas assets. Half of the TNK-BP assets belong to the British BP. The other 50 percent of shares are distributed among shareholders of the Russian consortium Alfa-Group, Mikhail Fridman and Hermann Hahn. The companies Access of Leonid Blavatnik and Renova of Viktor Vekselberg remain are still active. Shareholders of TNK-BP also own 50% of shares of the company Slavneft. The main activities of TNK-BP are production of oil and gas, oil and fishing tools, oil refining, and marketing of petroleum products. The production assets of the company are located in Western Siberia (Khanty-Mansiysk Autonomous district, Yamal-Nenets Autonomous district and Tyumen region), in Eastern Siberia (Irkutsk oblast) and the Volga-Urals region (Orenburg oblast).

Two points are related to the environment of the Baltic Sea in the Lithuanian part of the basin. These are the oil terminals Būtingė
and Klaipeda channel that was deepened to increase capacity of the port. The environmental safety connected to them is not widely discussed (Gerasimov 2003). Nor can the Lithuanian single-hull tankers be ignored because of their potential threat to the environment.

Speaking about oil extraction in Lithuania, four private stock companies were making an exploration and production of oil in Lithuania in 2003, which extracted 0.39 million tons of high quality oil. The domestically produced oil in Lithuania meets 13% of the oil needs of the country (Ministry of Economy of Lithuania 2003).

Despite the lack of significant oil deposits in the Lithuanian territory of the Baltic Sea, Lithuania is concerned about the intentions of Latvia to develop offshore fields for possible oil extraction. The Ministry of Environment of Lithuania had been instructed to investigate the potential economic and environmental effects of Latvian oil extraction activity on Lithuania. In response, the Ministry of Economics of Latvia has assured that currently the oil reserves in the coastal waters are only under investigation and that oil production in this region is an open question. It is known that in 2008 the Latvian government decided to begin research on its continental shelf in which oil deposits were found under the Soviet period (RusEnergy 2009). It should be noted that the first license granted to explore and produce oil in the Latvian territorial waters of the Baltic Sea was by the Danish oil company Odin Energi in July 2004. Much earlier, in October 2002, two licenses for the oil exploration were issued to the Swedish company TGS Nopec (Kirillov 2006).

Poland is not an exception in controversies over environmental safety and economy. The Polish company Petrobaltik, a subsidiary to the Polish holding GrupaLotos SA, has been producing oil in the sea near to the resort coast for several years. Petrobaltic is reported to have discovered two gas and oil fields in the Baltic Sea. However, starting operations in these fields by the Polish company can still be prevented by stringent environmental requirements in the region. These discovered fields resulted in a reaction in the Swedish media. The leading Swedish newspaper, DagensNyheter, estimated the possible profits from the discovered fields at 7.7 billion dollars. The Swedish business newspaper, Dagens Industry, reported that the Swedish oil company Svenska Petroleum Exploration plans to intensify the production of oil closer to the site where new fields were discovered (Golubkova 2009). No statements were made on any considerable claims on the possible damage to the Baltic Sea.
Conclusions

The paper had demonstrated that all countries of the Baltic Sea Region participate in various projects of oil extraction. The discovery of new fields leads to economic activity in different areas of the Baltic Sea region. Oil field development is going quietly, but the increasing competition and investors have attracted the environmentalists. However, the Baltic Sea region has a wide range of different organizational structures aiming to protect the Mature Environment from contamination. One example is the Helsinki Convention (Denmark, Finland, the Federal Republic of Germany, the German Democratic Republic, Poland, Sweden, and the USSR signed the Convention). It regulates pollution — from land or coast, waterborne or airborne, originating from the operations of ships, from pleasure craft, from sea bed activities, or from any other heterogeneous disposal at sea of wastes or other matters" (Kern & Löffelsend 2004). Signatories to the revised Helsinki Convention of 1992 included the entire original contracting parties, with the reunited Germany legally succeeding the former FRG and GDR, plus the newly independent Baltic states of Estonia, Latvia, and Lithuania. In terms of the general principles, it incorporates precautionary and the polluter-pays principles, promotes best environmental practices and best available technologies, environmental monitoring of emissions, and the avoidance of risks to health and environment. Although some agreements focused on specific aspects of maritime pollution that existed before, the Helsinki Convention was the first comprehensive treaty (cf. Kern & Löffelsend 2004: 70). The Helsinki Commission (HELCOM) is responsible for the coordination of intergovernmental activities. HELCOM recommendations are unanimously adopted. Though not legally binding, they must be incorporated into national legislation and environmental programmes. Thus, there is some hope that the problem of oil extraction and transportation in the Baltic Sea Region will be considered as one of the priority issues. In addition to the founding states of HELCOM 18, international non-governmental organizations have received observer status in this organization. These include the International Council for Local Environmental Initiatives (ICLEI), the Union of the Baltic Cities (UBC), Coalition Clean Baltic (CCB), and the World Wide Fund for Nature (WWF). Nevertheless, it is apparent that the social corporate responsibility of the oil and gas companies engaged in different projects in the Baltic Sea region is crucial and necessary.
Other efforts are connected with integration ideas (Liuhto, 2003). It is obvious that all the nations around the Baltic Sea should together find a solution to minimise the risks of oil hazard in the Baltic Sea, which from 2004 became almost completely the inner sea of the EU. However, Russia remains outside the enlarging Union. According to K/ Lihto the only effective method to prevent major oil accidents is to integrate Russia closer to the relevant decision-making bodies of the EU.

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Russia‘s Geostrategy in the Energy Sphere: From Past to Future

Irina Zeleneva

1. Introduction

Global challenges have exposed important trends that become apparent in contemporary world. The energy issue for one identifies such trends.

The first major trend is the vulnerability of the political-geographical space in the world: emergence of new regions that have become new actors in world politics (―Big Eastern Asia‖, ―Eurasia‖). Energy‘s role in defining the region is very important. Gas pipelines from one country to another leads to unfixed, undetermined borders between these countries. Energy resources serve to develop and modernise few countries in the world, while at the same time new forms of control over space emerges.

The second important trend of contemporary world is the growth of interdependence between states. The world today can be compared to an airplane attacked by a terrorist threatening to explode the aircraft. No matter which country owns the aircraft or who the passengers are or what the route, the common danger is the one that matters most. Such an understanding underlies the globalization of energy security discourse. Global political risks and changes in world politics make states search for ways to stabilise energy supply. In the contemporary world economy, the energy markets‘ role keeps increasing, and that is why it is vital to define how states see the energy markets‘ role in the global economy. Is it a part of traditional geopolitics, drawing special attention to struggles over energy and commodities, and thus, the emergence of inevitable energy conflicts of 21st century?,
or is it a part of geostrategy (geostrategic, integrated method) excluding hard power methods of solving interstate conflicts?. The objective of this article is to analyse the Russian geostrategy in the energy sphere.

The problems of energy security firmly entered into world politics long ago escalating rivalry among states, specialized international organizations, transnational corporations, all of which are trying to establish control over fields of natural resources, access to oil and gas pipelines, oil terminals and gas containers, and the distributive networks leading to the final consumers.

At the beginning of the 21st century, transformation of a world community into a common economic system is characteristically an objective feature. In 2008, Alexander Dynkin of the Russian Academy of Sciences prepared a scientific prognosis of world development by 2020 in which the following trends of a new stage of globalization were identified: reinforcement of the rule of uneven development among actors of this process; marginalization of the majority of the world population; intensification of competitive struggle over “natural resources”; increase in primary energy resources consumption in the world (i.e. 1.3 times more). Two-thirds of this growth will account for developing countries, and one-fourth for China (Rogov 2008: 107-110).

Currently, the world has been affected by the global financial crisis. This is precisely for this reason the way out is via joint actions. In July 2008, the International Economic Forum “Dialogue West-East: Integration and Development” was held with the support of WPF Dialogue of Civilization in Modena (Italy) that comprised of experts from Russia and Italy. The Forum resulted in the launching the Modena Initiative, which particularly states that the crisis bears a systemic character. The dramatic and mainly speculative growth in fictitious capital together with floating currency rates led to the separation of financial system from real economy.

2. History of Russian Geopolitics and Geostrategy

The first half of the 19th century relates to the height of power of the Russian Empire in the post-Peter the Great era, which at the same time started a tragic path to its current situation. Peter the Great’s geopolitical breakthroughs in the Baltic countries, Black Sea and the
Caspian Sea, and the unprecedented achievements of Catherine II in the western and southern dimensions of Russian foreign policy, the geostrategic ambitions of Paul I are all hallmarks of the first half of the 19th century.

During the reign of the tsars Alexander I and Nicholas I, Russia was on the verge of becoming the world’s geopolitical middle space or middle earth (“heartland” by Mackinder). During the first half of the 19th century, Russia made an epochal leap from geopolitical ideas of single individuals towards geopolitical images of mass perception with its own values and autonomous existence. It is during this time that the world felt the first symptoms of global changes in a shift from Russia’s isolation and immobility towards principles of universal mobility and interrelationship.

3. New Paradigm of World Politics

In the present context, a geopolitical strategy should be replaced by the geostrategic paradigm of international relations. If the 19th and 20th centuries are known in history as centuries of geopolitics, then the former claims to be the century of geostrategy. Notions “geopolitics” and “geostrategy” rest upon the same methodological principle – dimensional approach to political problems, but they are not identical because they reflect different features of political thinking referring to different periods of political development of humanity.

The end of the 20th century is marked by a denunciation of war on ethical and economic grounds, and the beginning of a new period of political thinking that is intolerant to the use of coercive methods in resolving intergovernmental problems. Geostrategy pushes aside national egoism in favour of regional and global cooperation based on common political, economic, social and moral values.

At the heart of geopolitical analysis lies the principle of differentiation. The power of a state is formed by “national forces” embodied in economic, demographic, social, administrative, defensive and some other activities of a state.

Geostrategic analysis, on the contrary, proceeds from the principle of integrative perception of “national interests” since now, more than ever before, the traditional boundaries between politics, culture, economics, national security and ecology are being wiped out.

For further information on geopolitics of Russia see Zeleneva 2005.
formational arbitration” can serve as a basis of geostrategic analysis. Its main point is a thorough collection of information in all the spheres mentioned above and the consideration of different points of view in order to design the most comprehensive picture of the world that would not be created if we looked at the world from a single standpoint. The basic methodological principle of geostrategy is a synergetic approach that necessarily takes into account both the events and the correlations occurring between and during incidents.

We propose to use a method of "informational arbitration”, i.e. to analyse the phenomenon of political life as a whole, taking into account the correlations that occur between them and to choose the six "geostrategic dimensions” as the rules and principles. The first dimension is formed by politics (including its geopolitics). The second dimension is constituted by culture. The third dimension is economic (including geo-economics). The fourth dimension is about national security. The fifth is technological (applicable first and foremost to its most significant aspect, information technologies). The sixth dimension is ecological (as a controlling restrictive factor of technocratic expansion of an individual in the age of globalization).

Geopolitics becomes just one of the aspects of geostrategic analysis as well as geo-culture, national security, geo-economics, technological sphere and ecology. We take the liberty of formulating a scientific definition of geostrategy. Geostrategy is an integrated method of cognition and political modelling, using the dimensional approach when analysing the political processes at the interstate level in the framework of a stable spatial-temporal continuum, given the unconditional priority of basic common to humanity, values that reject coercive methods of contradictions resolution by states.

4. Energy Policy and Energy Security of Russia

For a long time, Russia has not participated in the creation of institutions for intergovernmental cooperation; the country was a relatively passive participant in the international market of energy resources. Modern geostrategy of Russia cannot be considered without its integration into world economics and world energy sphere.

At the beginning of the 21st century, Russia actively integrates into the world market of energy resources and actively participating in functioning of all nodes of world energy security (Yergin 1998). The global nature of energy, its politicization and the increasing role
played by Russia in the world energy sphere has elevated energy as a major issue upon which current Russian foreign politics rests.

In his report on the problems of geology and exploitation of gas and oilfields at the IX International Forum “Fuel and Energy Complex”, the Chairman of Scientific Committee, A. Kontorovich, of the Russian Academy of Science, stated that crisis is only temporary and will be inevitably followed by economic growth, and consequently the demand and prices of oil, gas and coal will increase. Increasing economic growth will fuel this trend further: increase in oil and gas production, special attention to problems of energy saving and market diversification. The role of the Asian-Pacific region is significant as a steadily expanding consumer of oil, gas and coal. Needless to say, attention will shift to alternative sources.

The formation of a Russian perception on energy politics emerges in beginning of the 21st century. It becomes evident that developing a modern energy strategy of Russia must have a long-term character (until 2100) and technological contacts with the OPEC and other key actors in the world energy sphere. It should strongly emphasize the external and internal political constituents. Energy security is presented as a part of the whole: national security of the country. Undoubtedly, the modernization of fuel and energy complex and a developed system of pipelines can be considered as binding the national territory of the state, thus reinforcing national security. In a speech before the OPEC conference in Vienna, the Vice Premier of the Russian Federation, Igor Sechin, stated on March 14 2009 that Russia would reduce the export of oil at the expense of increase in internal consumption. He called for coordination of efforts with world oil producers.

The issue of energy security gets the highest priority in Russia’s energy negotiations with leading consumers and exporters of energy resources. First, this refers to the European Union as a whole and some of its members like Germany, Great Britain, France, the Netherlands and Italy. Moreover, special attention is drawn to this topic in the Russian bilateral negotiations with the USA, Japan, China, India and South Korea. It also features in the country’s negotiations with the Saudi Arabia, Algeria, Venezuela, Norway, Mexico, Canada and other significant producers of energy resources.

The European Union traditionally is a significant partner of Russia. The current Russian-EU partnership is not solely limited to supply of energy; it is also about joint exploitation of large fields, cooperation in the construction and development of the oil and gas sys-
tems for transportation and gas storage. It is important to note that Russia is now shifting focus from energy supplies to joint projects in developing infrastructure, technological cooperation, energy efficiency, ecology and alternative energy.

Modern Russian-EU relations are somehow connected with energy negotiations. The EU has been urging Russia to ratify the 1994 Energy Charter over the last fifteen years. According to the Moscow-based political scientist, Timofey Bordachev, “Moscow refuses to ratify it, since the Charter has an Appendix, so-called Transit Protocol, establishing a regime of free transit of foreign energy carriers through Russian pipelines” (Bordachev 2009). It requires the signatory parties to create joint institutions for regulating the energy resource market based on the principles of free trade. Cooperation in the regulation of energy resources will have positive results in bilateral relations, which in the words of Bordachev: “There’s just one step from Russian-EU energy union to a political one”.

The existence and functioning of such institutions may support settlement of gas disputes in early stages. While addressing the 2009 Brussels Forum, the Russian Minister of Foreign Affairs, Sergei Lavrov, called upon the EU to create a mechanism for early prevention of gas conflicts (Neft Rossiyi 2009).

Undoubtedly, the principle of diversification lies at the heart of the energy diplomacy of the EU and the Russian Federation. For years to come, the EU will not be able to replace Russian gas supplies with alternative energy sources.

**Figure 1. Gas Import to the EU (2007)**

![Gas Import to the EU (2007)](image)

Russia – 36.2%, Norway – 34.6, Algeria – 14.5%, Other countries – 14.7%. Source: (Profil 2009: 58)
The Director of the Russian Energy and Geopolitics Institute, E. Telegina, points out that Europe’s gas resources from the North Sea is limited. According to the calculations of experts, from 2010 onward Europe will be forced to import at least 60% of its gas needs. Already by the year 2015 Europe will require one-third more than its current gas needs. The amount of gas in the fields of the Netherlands and England is close to depletion. The Norwegian gas supply to the European Union will steadily decrease while that of Russia will increase. Algeria’s share of gas supply to Spain, Portugal, and partly to Italy will remain at the earlier level (Profil 2009: 55). Presently, the share of Russian gas supply to Europe via energy carriers constitutes 24%. It is rather hard for the countries of the European Union to work out a common framework of gas import from Russia due to diversified dependence. Thus, the countries in the Baltic and South Europe are 100% dependent on Russian gas supplies. Countries that are “highly-dependent” are Northern Europe, Poland, Germany. Finally, there are countries that do not at all depend on Russian gas, namely Spain and the UK. These two countries are always searching for “alternatives” to Russian gas.

Russia is not opposed to the construction of new gas pipelines on the territory of Eurasia. As the Director of Oil and Gas Institute, A. Dmitrievskiy, has pointed out, projects of gas pipelines bypassing Russia (Nabucco and trans-Saharan gas pipeline from Nigeria through Algeria) are largely political rather than economically rational. Because the prime cost of this gas will exceed its market value – on the border of Bulgaria and Turkey gas will cost 90 dollars while its market value is 10 dollars or less). The political issues over construction and operation of the Nabucco pipeline remains unsettled: Whether or not Turkmenistan will participate in this project, the maritime boundary disputes in the Caspian Sea in which Russia also takes part are still not resolved.

Russian experts are of the opinion that the Russian Federation and the European Union will have to concentrate on “efforts in ensuring transit transparency of Russian gas via Ukraine” and not wait for Russia’s decreasing role in energy supply to Europe (E. Telegina).
Table 1. New Vital Arteries: Transport Capacities of Marked Pipelines after Completion of their Construction (m³ per year)

<table>
<thead>
<tr>
<th>Pipeline Type</th>
<th>Transport Capacity</th>
<th>Cost (Euro)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nord Stream</td>
<td>55 bil m³</td>
<td>17.6 bil</td>
</tr>
<tr>
<td>Nabucco Project</td>
<td>31 bil m³</td>
<td>9.9 bil</td>
</tr>
<tr>
<td>South Stream</td>
<td>30 bil m³</td>
<td>9.6 bil</td>
</tr>
<tr>
<td>Operating pipelines, stretching through Ukraine</td>
<td>120 bil m³</td>
<td></td>
</tr>
<tr>
<td>Stretching through Poland after reconstruction</td>
<td>30 bil m³ (67 bil m³ after reconstruction)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Profil 2009: 57

A whole range of issues makes it impossible for establishing a common European energy market without Russian participation. Firstly, Russian gas pipeline supplies to certain European countries (Germany, France, Italy, and Austria) are long-term nature and have a determinant role in defining the energy policy of the EU. Secondly, the unstable situation in the Middle East and Central Asian states threatens diversification of gas supplies to Europe. Thirdly, the political and economic partnership between the Middle East regional leader Saudi Arabia and the USA do not approve the EU governing body.

In a speech at the Ministerial conference on cooperation in energy sphere of member states from Baltic Sea region (BASREC, Baltic Sea Region Energy Cooperation), the deputy energy minister of the Russian Federation, V. Azbukin, listed a range of essential actions for ensuring energy security and cooperation for this region. The following directions of joint actions were proposed: (i) development of a legal international mechanism; (ii) diversification of export transportation routes of energy carriers, enhancement of infrastructure, developing of a liquefied gas segment, creating energy carriers’ reserves, integration of power industry systems; (iii), utilization of other energy negotiations ensuring energy security, particularly, broadening the participation of European energy companies the development of the Russian energy sector in exchange for EU market access to Russia manufactures and products; (iv) improving energy efficiency and expansion of renewable energy sources (Ministry of Energy of Russian Federation 2009).

Russia’s advantage in geographical location and unique natural resources (oil, gas and pipeline projects) provides it with political
leverage in the Eurasian space. Russian energy policy is based on creating routes for transportation of hydrocarbon raw materials. The issue of diversification, which Winston Churchill has already talked about, becomes a crucial factor not only in energy policy but also for the Russian economy as a whole. The Far East energy policy develops simultaneously with the European one, and the medium- and long-term prospect is devoted to counterbalance it. Intensification of the Far East in the Russian energy policy refers to a geographical proximity of Asian countries to Eastern regions (Siberia, Far East Russia) with vast reserves of hydrocarbons, which experts predict will increase Asia’s dependence on external energy supply. The economic growth of the Asian-Pacific Region will inevitably lead to a growth in total consumption of oil, gas and hydrocarbons.

The EU and Russian geostrategy in the near future should aim at exploring new integrated decision-making that takes into account joint energy prospects by both parties. The Russian geostrategic proposal for improving the operating mechanism of the Energy Charter Treaty (ECT) will be a subsequent development of energy dialogue based on a “substitution of assets” principle. However, geostrategic method does not exclude geopolitics – zone of influence extension, for example, in Baltic Sea. Russian gas diplomacy based on long-term energy strategy constitutes a set of measures for maintaining political influence on the Eurasian space and adherence to a policy of energy security. The objective of the Russian energy policy towards Europe is to complete a formation of a “gas ring”: symmetrical streams, Nord Stream, and Southern Stream pipelines. Subsequently, gas to Europe will be supplied from three directions: Eastern (Soyuz, Progress, Yamal-Europe), Northern (North European gas pipeline) and Southern (Blue Stream, Southern Stream).

Geostrategy of modern Russia should take into account a “new geometry” of energy alliances, from efficient activities of which depends leadership of our country in a global energy policy for a long-term prospect. The matter is primarily about development and exploitation of hydrocarbons that are hard to retrieve. Presently, approximately 20% of Russian GDP and 22% Russian aggregated exports are generated in the Arctic area. Exploration and development of unique oil and gas reserves on the Russian continental shelf are being forecasted. Currently, none of the explored hydrocarbon minefields in the Barents and Kara Sea shelves are being developed (Vovk, Shamalov & Holodilov 2008).
Creation of a strategic alliance for implementing large-scale projects involving foreign companies (Stockman project) will make Russian energy policy more efficient. Russian and Norwegian strategic energy partnership is a good example of geostrategic vision of the future. Norwegian energy policy meets the EU legislative rules. The joint-stock company Gazprom is considering the possibility of a uniform network system of transporting Russian and Norwegian gas within the framework of the second development stage of Stockman’s minefield.

Thus, Russian energy geostrategy in the medium- and long-term has further implications:
- Maintaining the Russian share in European imports of hydrocarbons at a level not less than 25-30%.
- Entry of Russian hydrocarbons in new markets of Asia and North America.
- Developing joint energy projects with Central Asian countries.
- Russia’s opportunities of expanding and ensuring transit of energy resources in the European and Asian directions (opportunities and risks of pipeline, sea and railroad transport, manufacture of liquefied gas (SPG), framework for implementation of Sakhalin-2 project).
- Expansion of Russia’s cooperation with foreign countries in the development of renewable energy.

5. Conclusion

Current stage of Russia’s development complexity is an infallible tactic of harmonizing political and economic factors in external and internal policy, complying with the geostrategic course, and reconciling the country’s geopolitical ambitions with modern world reality.

The concept of energy security of modern industrial states of Europe and the USA is an example of a new issue entering world politics. There are ten potential areas within the energy supply network that could block the transit of world oil supplies. Although these areas are relatively small, they are nevertheless very important and vulnerable as transit routes of oil and other energy resource transportation. These routes can be blocked within a short period, but can create global shocks more powerful than the 1970 oil shocks. According to estimations, disabling only one of these transport nodal points can
trigger energy price increases by 500%. Based on this calculation, the disabling of two or more of these transport nodal points could result in energy crisis of an apocalyptic proportion. These nodal points are: Hormuz, Bab el Mandeb, Malacca straits, Bosporus, Suez and Panama canals, and also the 4 oil terminals of Russian oil export: Ventspils, Novorossiysk, Odessa and Tuapse. We need to ask ourselves whether leaders in Europe and North America are willing to risk their well-being by entering into an armed conflict with Russia where four out of the world’s ten geopolitical energy nodal points are located. The answer is an obvious — no”. However, it is also evident that there are alternative sources of oil outside Russia capable of meeting the world’s requirements. For this reason, Russia can neither indulge in energy blackmail nor stand aside as an observer that can have serious economic implications for the country. The future of Russia and its people depends upon how successfully the Russian authorities are able to capitalize on geopolitical opportunities within the framework of a new geostrategic state doctrine (including use of armed force).

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57. Bo Franzén, Emancipation och urbanisering i medeltidens Sverige. Trender mot ett mer fritt och rörligt feodal samhälle cirka 1200-1527 (Emancipation and Urbanization in what was to Become Sweden, circa 1200 to 1527.) 2009. 93 pp.


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