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Russia Divides and Rules Europe

BY FREDRIK ERIXON

Few issues elicit so much passion and anger in otherwise sterile European Union politics as Russia's energy power. Concerns over the big Eastern neighbor have consumed EU summits over the past year more than all other European matters put together. Too often Europe's approach has oscillated between short-sighted interest in the next energy deal and utopian confidence in its capacity to influence Russia's strategic thinking.

Brussels' strategy for dealing with Moscow has principally been commercial. By making Russia dependent on European markets and investors, the EU hoped it could get Moscow to respect international commercial and political rules and become a good world citizen. The core of this strategy was to guide Russia into the World Trade Organization and subsequently lead the region toward a grand trade pact, including former Soviet Union countries outside the EU.

This strategy has failed so far because Russia believes it has a better one: making Europe dependent on its energy and controlling its neighbors' energy exports. The EU has been paralyzed in the face of Russia's vision of integrating the region under its own security and energy umbrella.

Europe's strategy could not succeed because the EU runs a fragmented, nationalized and oligopolistic market for energy. This has allowed Russia to play a classic game of divide and rule against Europe, which will become increasingly dependent on supplies of Russian gas. As a result, there is also little Europe can do to reverse Russia's recent protectionist trend. Last year, it capped foreign investment in 42 sectors, such as automobiles, energy, finance, and telecommunications. Now Russia's Budget Committee, chaired by Prime Minister Vladimir Putin, has suggested

increasing tariffs in many sectors, including metallurgy and shipbuilding, where foreigners compete with Russian producers.

Any shift in Europe's approach to Russia, and its long-term ability to root Russia in a rules-based world economy, must start with energy policy.

Accelerating EU plans to build a single market for energy would have multiple benefits. It would encourage much more competition between energy providers, bringing down prices for consumers in the process, and fuel investments in intra-European power grids. It would also help to cushion the effect on mostly East European countries when key energy exporters to Europe fiddle with pipelines - a practice, alas, not exclusive to the Kremlin. Europe would be better able to compensate energy or electricity shortages in countries such as Bulgaria or Hungary the next time Ukraine or Russia reduces gas supplies to the region. Moreover, it would give Europe greater market power to fight anti-competitive behavior by Russian energy companies like Gazprom.

This is a classic EU-style bottom-up strategy: When it opens up and liberalizes internally, it grows stronger externally and can leverage its market power to get other countries to open up and respect rules as well. Europe's efforts to make Russia play by international rules by getting it into the WTO, though, are unlikely to succeed. But it's not entirely clear that Russia really wants to join this trade organization.

A better strategy would be to use Russia's existing commitments as a signatory to the Energy Charter Treaty to make it respect international rules. Unsurprisingly, Russia does not like the ECT because it is one of the few international treaties that actually could constrain Russia's energy power games.

Moscow claims, correctly, that it has signed but not ratified the ECT. It also claims, wrongly, that it is therefore not bound by this treaty. When signing the ECT, Russia agreed to apply its rules even before ratification.

To confuse matters further, President Dmitry Medvedev has recently proposed a new global energy charter that would cover all energy sources and include the world's energy exporters and importers. EU Commission President José Manuel Barroso has wisely turned down Mr. Medvedev's invitation for the EU and Russia to jointly spearhead this new energy pact. But in some European quarters, like Germany, this idea has received a warm response.

The plan is so unrealistic that its real purpose can only be to distract the EU from its energy problems with Russia. Consider that any progress on such a global charter would depend on progress in nuclear power negotiations with countries such as Iran or North Korea or on Hugo Chavez's agreement to investment protections in the energy sector; both are unlikely.

Only people smitten by political romanticism could seriously propose a global accord on energy. One can accuse the Kremlin of many things but a fable for romance is not among its faults. Europe cannot act as a regional superpower when it does not have a common commercial policy on the issue that matters most to its Eastern neighbors.

Constant crisis summitry over Russia might make for excited headlines. But Europe works best when it is boring, such as when it laboriously works on its single market. Creating such a market for energy would get Moscow's attention.