

Future of the EU-Russia relations

By Kari Liuhto

The European Commission suggests that the Russian investment stock in the EU amounts to some € 10 billion. Russia's President Putin stated during the EU-Russia summit in Portugal that the Russian investments in the EU total less than € 3 billion. I doubt the accuracy of both the aforementioned figures, when I keep in mind that the United Nations reports that Russia's total outward foreign direct investment (FDI) stock, by the end of 2006, was over € 100 billion and the EU is one of the major destinations of the Russian FDI.

The question here is not statistical but rather political, since Russia seems to imply that the EU restricts her investments in the Single Market, which is not the case. All the foreign privately run companies are openly welcomed to the EU regardless of their country of origin as long as they do not create a monopoly inside the European market, they cannot be regarded as tools of any country's foreign policy and they obey the rules.

Instead of being afraid that the EU starts to exercise protectionism in order to slow down the expansion of foreign state-controlled corporations in the Single Market, I am more concerned that the Russian investment environment turns more restrictive towards foreign firms. I am not only concerned about the possible Law on Strategic Industries or Mineral Resource Act, but I am even more worried about the future development of so-called National Champions Policy, which accumulates unpredictability in the Russian investment environment, because foreign investors cannot predict what are the ultimate measures the Russian State uses when it creates these domestic champions. The non-transparent National Champions Policy is more damaging to the Russian investment climate than even their restrictive legislation is.

I would like to underline that one cannot improve competitiveness without intensive competition, and therefore, a National Champion Policy fostering monopolisation and legislation restricting foreign competition does not help Russia become more competitive. The World Economic Forum placed Russia in the 58th position among 131 countries analysed in the global competitiveness study. For instance, Chile, Thailand, Tunisia, India, Mexico, and Indonesia rank better than Russia.

Foreign investments are not only the cheapest way to obtain capital, modern technology and advanced management techniques, but the foreign enterprises per se are valuable since their business contacts build additional bridges between the EU and Russia, and hence, support European integration continent-wide. Due to differing opinions at the political level, all the additional actors are needed in keeping the dialogue constructive.

In order to avoid reciprocity of investment restrictions, one should create an independent expert team of policy-makers, businessmen and researchers to analyse how to create a free and predictable investment environment in the EU-Russia context. The EU-Russia Industrialists' Roundtable accompanied with leading policy-makers and researchers could be a convenient way to form an objective research team, which could biannually produce a report on the EU-Russia investment climate and the main barriers hindering its further development.

In addition to problems related to investments, transit of conventional goods gives us unnecessary headache. We have, each moment around the clock, several kilometres of truck lines, if we take all the customs points between the EU and Russia into account. Technical solutions, such as electronic customs declaration, are available, if there is

enough political will to solve this issue.

Energy transit is an even more burning issue than conventional transit. The Baltic Sea has already become the most important oil export channel of Russia, and the amount of oil shipments is to increase sharply in the near future. At the moment, the oil shipments via the terminals around the Gulf of Finland total to some 140 million tonnes, and they are estimated to go over 200 million tonnes in the next decade. In order to avoid a looming oil accident in the Baltic Sea, no single-hull tanker should be allowed to enter this sea. Hopefully, one should not first have to experience an oil hazard before this decision will be taken. One can only guess the dramatic consequences of such an accident to the shallow Baltic Sea and the negative impact of the oil spill on the EU-Russia relations. Here one should not forget that over 6 million Russians, living in St. Petersburg and the Leningrad region surrounding it, would be directly affected by the increasingly probable oil accident in the Gulf of Finland.

In addition to oil deliveries, the Baltic Sea may become a major export route of natural gas from Russia to the EU. The plans to build the natural gas pipe, Nord Stream, on the seabed of the Baltic Sea have heated the discussion for some time. In order to create a genuinely sustainable solution for such a strategic energy project, which more than doubles the gas deliveries from Russia to Germany, I propose that the project would involve as many EU countries as possible. In other words, I propose that the Nord Stream plan would be abandoned and instead a pipe via the Baltic States and Poland to Germany be constructed, or alternatively, the second leg of Yamal-Europe via Belarus and Poland to Germany would be erected. The re-direction of the pipe would be a fundamental gesture of goodwill from the Russian side, and this gesture would definitely support the continent-wide integration in Europe.

Even if the relations of the Baltic States and Poland with Russia are not at their best at the moment, the Baltic States and Poland are members of the EU, and hence, they should be regarded as reliable energy transit countries. Moreover, the land-based pipeline is less risky operationally, environmentally more friendly, and obviously financially less expensive.

Should the Nord Stream pipe be realised, its costs will definitely go over € 5 billion, the sum indicated earlier by the Nord Stream organisation. Here one should mention that the preliminary budget of the South Stream, the 900 km-pipeline project underneath the Black Sea, is € 10 billion. With the similar cost structure, the planned budget of the 1200 km-long Nord Stream would be more than € 13 billion. As differing opinions on the real cost level exist, I propose that an independent organisation would calculate the costs of building a comparable land-based pipeline connection to Germany.

In this context, I want to stress that the Baltic States and Poland should not charge extra transit fees, since the use of the Nord Stream pipeline does not cause any extra administrative transit cost to its owners. The current ownership structure is as follows: Russian Gazprom 51%, German E.ON 20%, German BASF 20%, and 9% Dutch Gasunie. Including three companies from two EU countries in such a strategic project do not really turn this pipeline "a EU project".

The following five facts may help to analyse the strategic significance of this project for the whole EU: (1) Germany accounts for 20% of the EU economy, (2) natural gas forms already at the moment nearly 25% of Germany's primary

energy consumption, (3) Germany is already now the EU's largest importer of the Russian gas with annual imports amounting to some 35 billion cubic meters, (4) the total capacity of the Nord Stream pipe would be 55 billion cubic meters, and (5) Germany's gas dependency on Russia would jump from today's 42% to approximately 65%, if the Nord Stream pipe would operate at the moment.

One may ask whether the EU's largest economy becomes too dependent on gas deliveries from Russia, and what might be the consequences of such overdependence to other EU members and their relations with Russia. Furthermore, one may wonder the position of Ukraine and Belarus vis-à-vis Russia if the Nord Stream and the South Stream will be implemented, since Ukraine represents currently some 80% of Russia's gas transit to the west. The respective share of Belarus is approximately 15%. The non-payment of the Russian gas and other transit-related problems by Belarus and Ukraine motivate Russia to speed up the building of both the Nord Stream and the South Stream.

To end, it is essential for all the EU countries neighbouring Russia that there is a common policy within the Union towards Russia. Bilateral relations may aid common policy but they should never challenge it. I dare to argue so, even if the trade relations between Finland and Russia are more intensive than those of any other EU member state. Although Finland has also had several painful historic

moments with our eastern neighbour and even some differing opinions nowadays, one should always try to search for constructive ways to go forward instead of searching for differences in opinions, systems or even values. The EU and Russia are different enough to learn from each other but similar enough to collaborate with each other. The Finnish pragmatic approach on how to conduct relations with our eastern neighbour might also be useful to some other neighbours of Russia and to the EU's Common Policy towards Russia in general.

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