

European Energy Security and Russia

Peter Havlik

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Part I. Russia and the European Energy Security

- Russia in the global economic turmoil
 - 10 years of boom followed by one year (2009) of bust
 - V-shaped recovery underway
- Russian boom and bust
 - the ambivalent role of energy: driver of the boom, brake of restructuring
- Policy challenges and outlook:
 - Short term: deficit spending, more protectionism
 - Medium and long term: diversification, modernization and adverse demographic developments

Part I. Russia and the European Energy Security

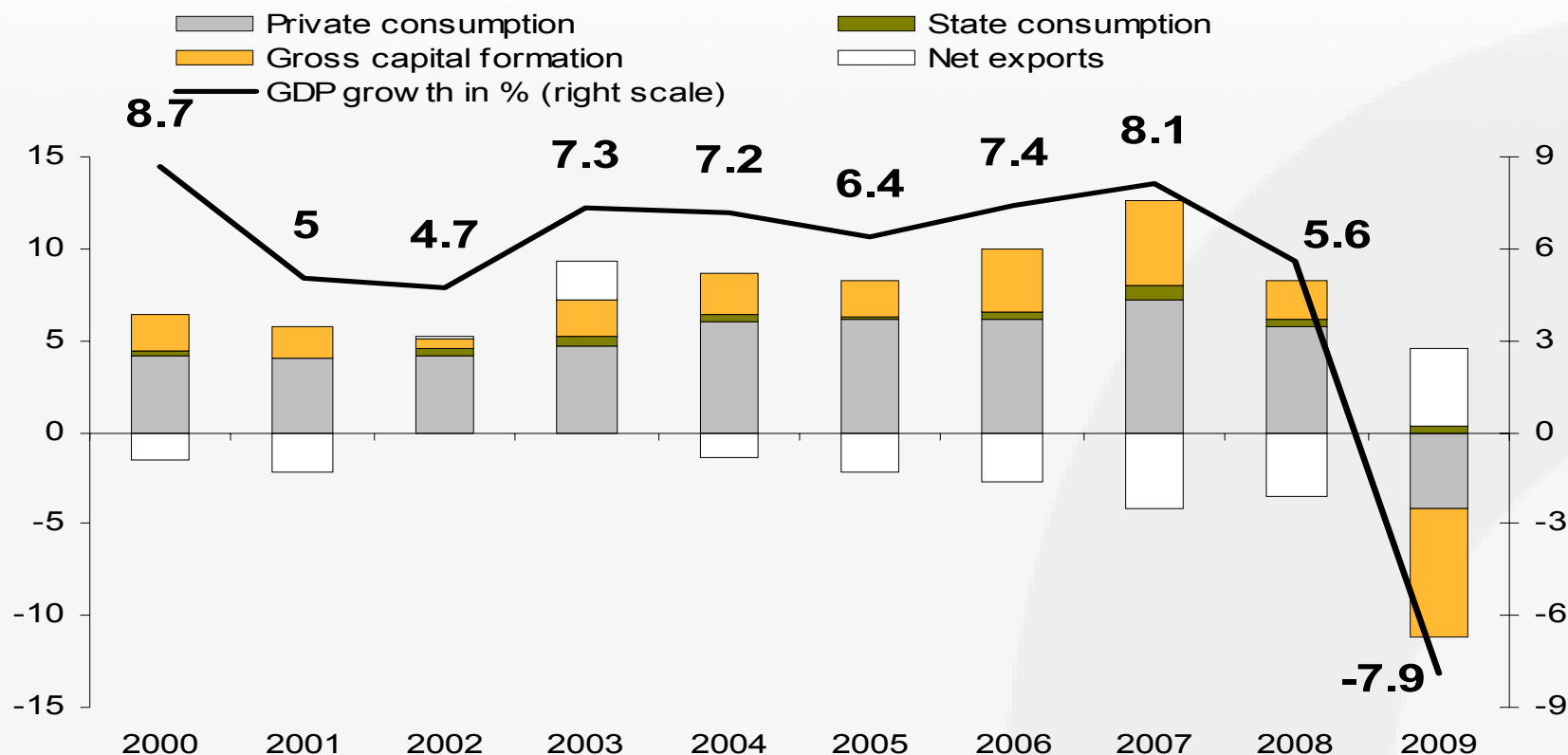
- Russia in the global economic turmoil
- Russia's boom, bust and the ambivalent role of energy: a driver of the boom, brake of restructuring
- Policy challenges and outlook

Part II Energy Security and EU-Russian Relations

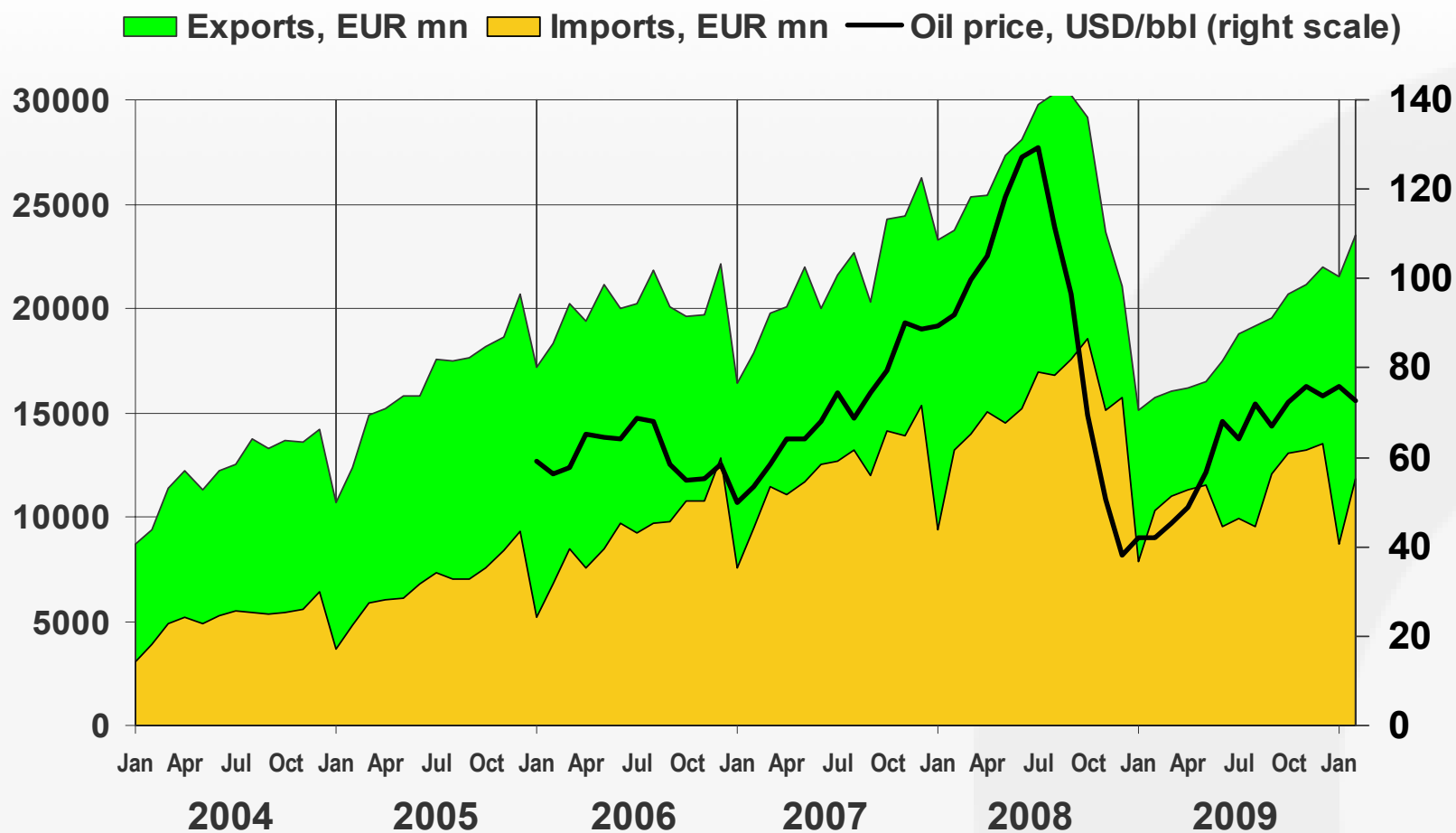
- EU-Russian trade and energy dependency
- Energy transit issues
- Challenges of European integration
- Policy conclusions

Russian economic boom: GDP growth, in %

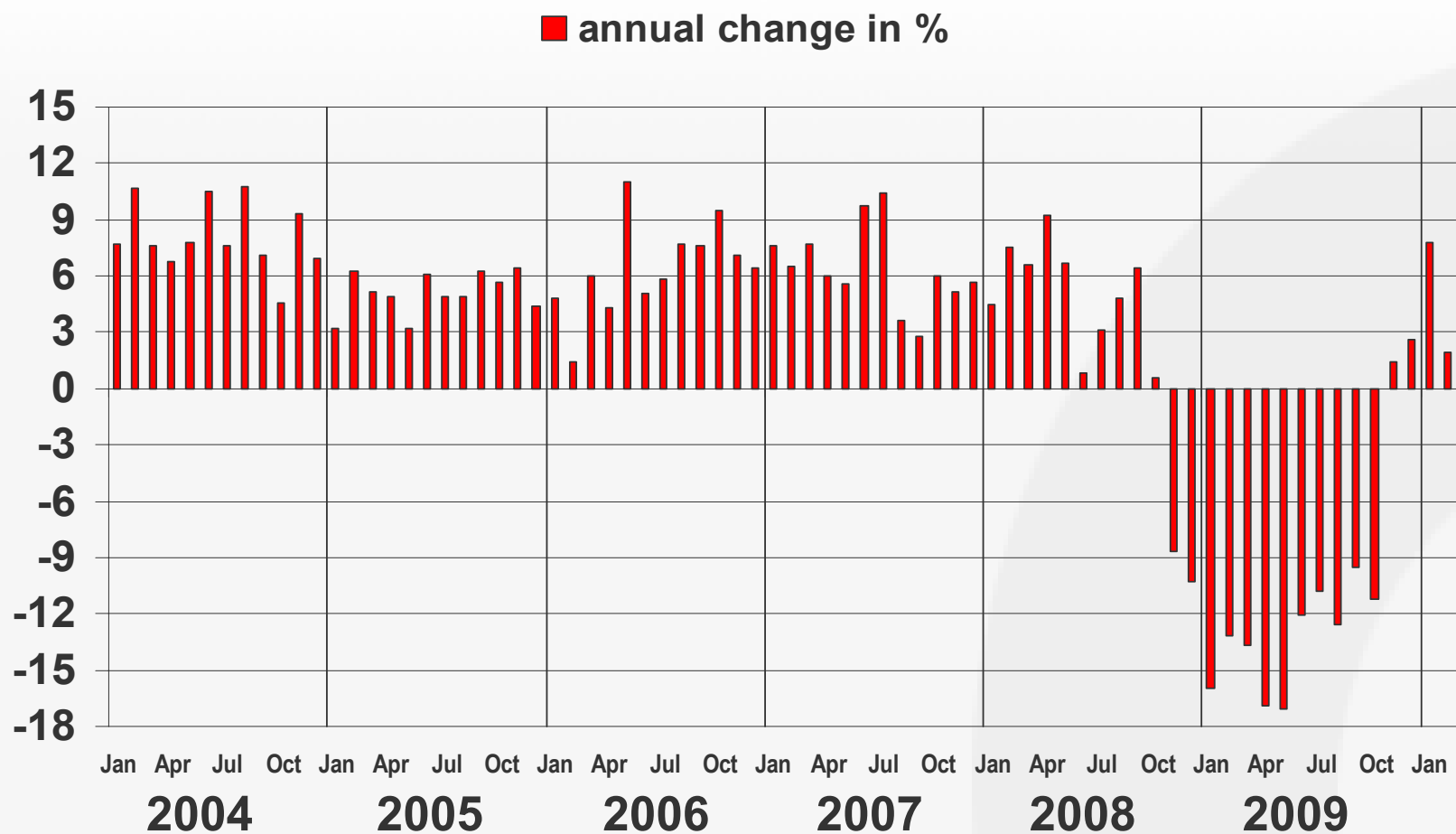
contributions of main components to GDP growth, in pp



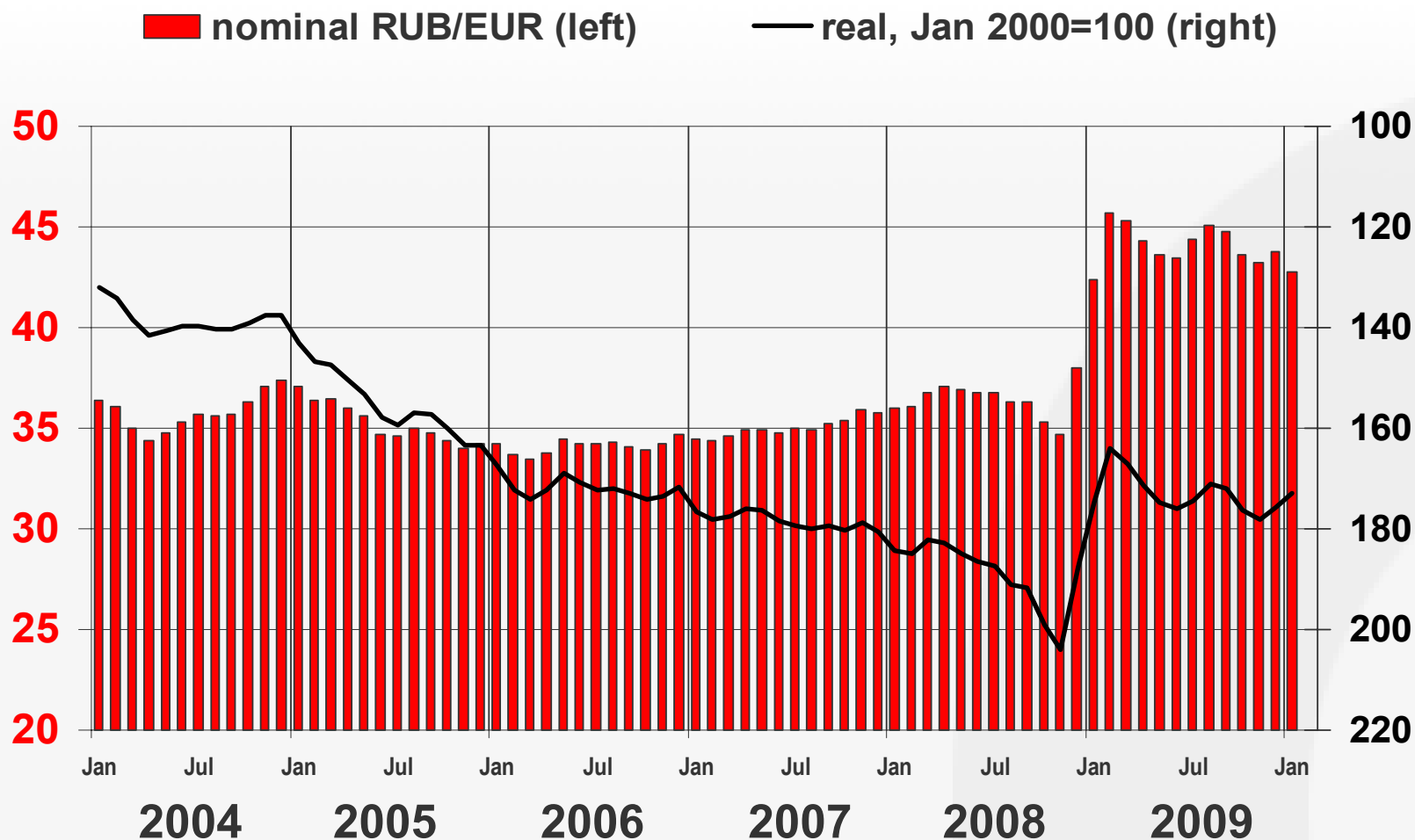
Oil price and foreign trade drop sharply after mid-2008, but recover during 2009 ...



Industry shrank since Nov 2008, but is recovering after one year ...

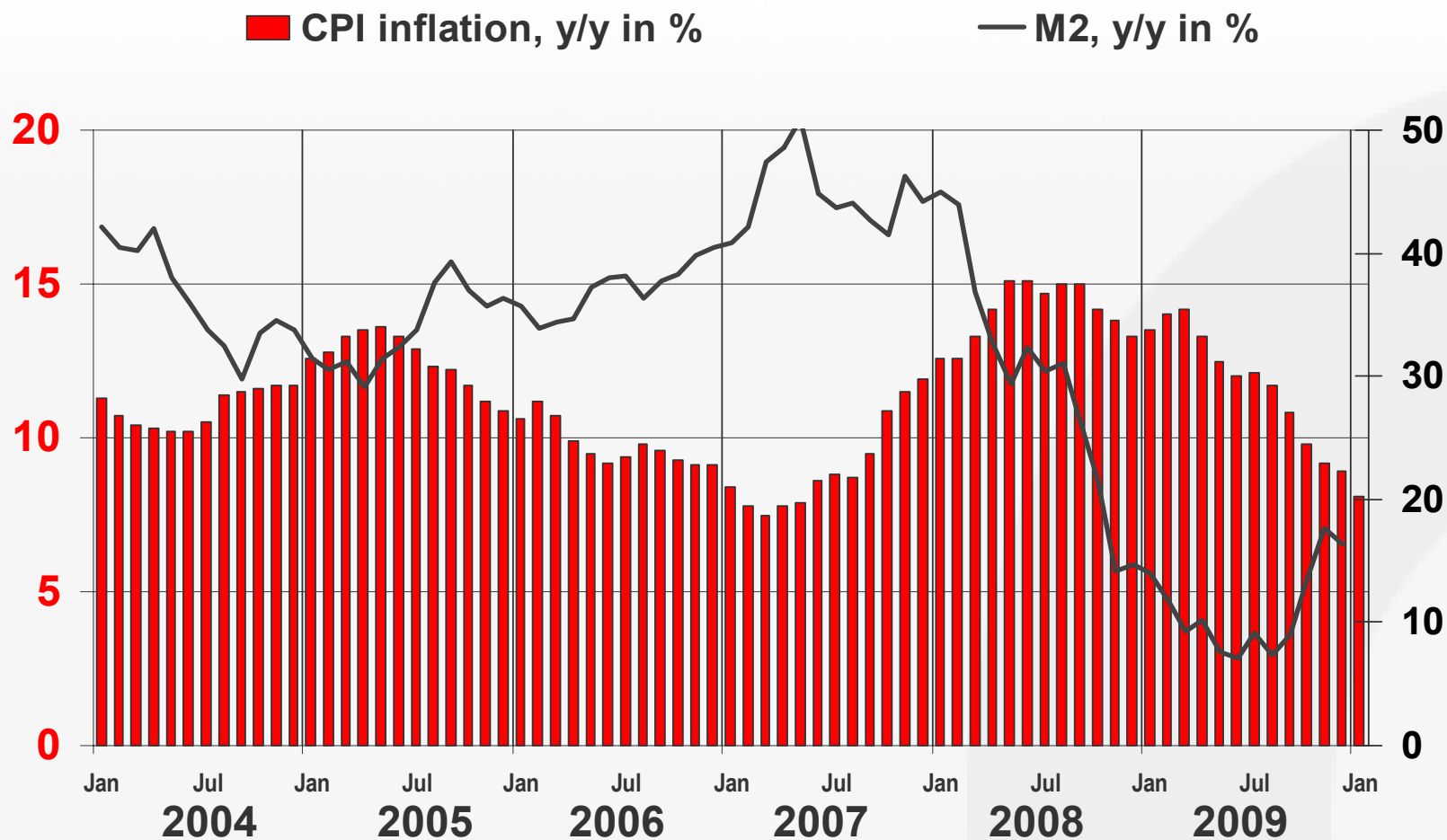


and the exchange rate temporarily depreciated ...



Note: Decreasing line indicates real appreciation.

Inflation and money supply, annual change in %



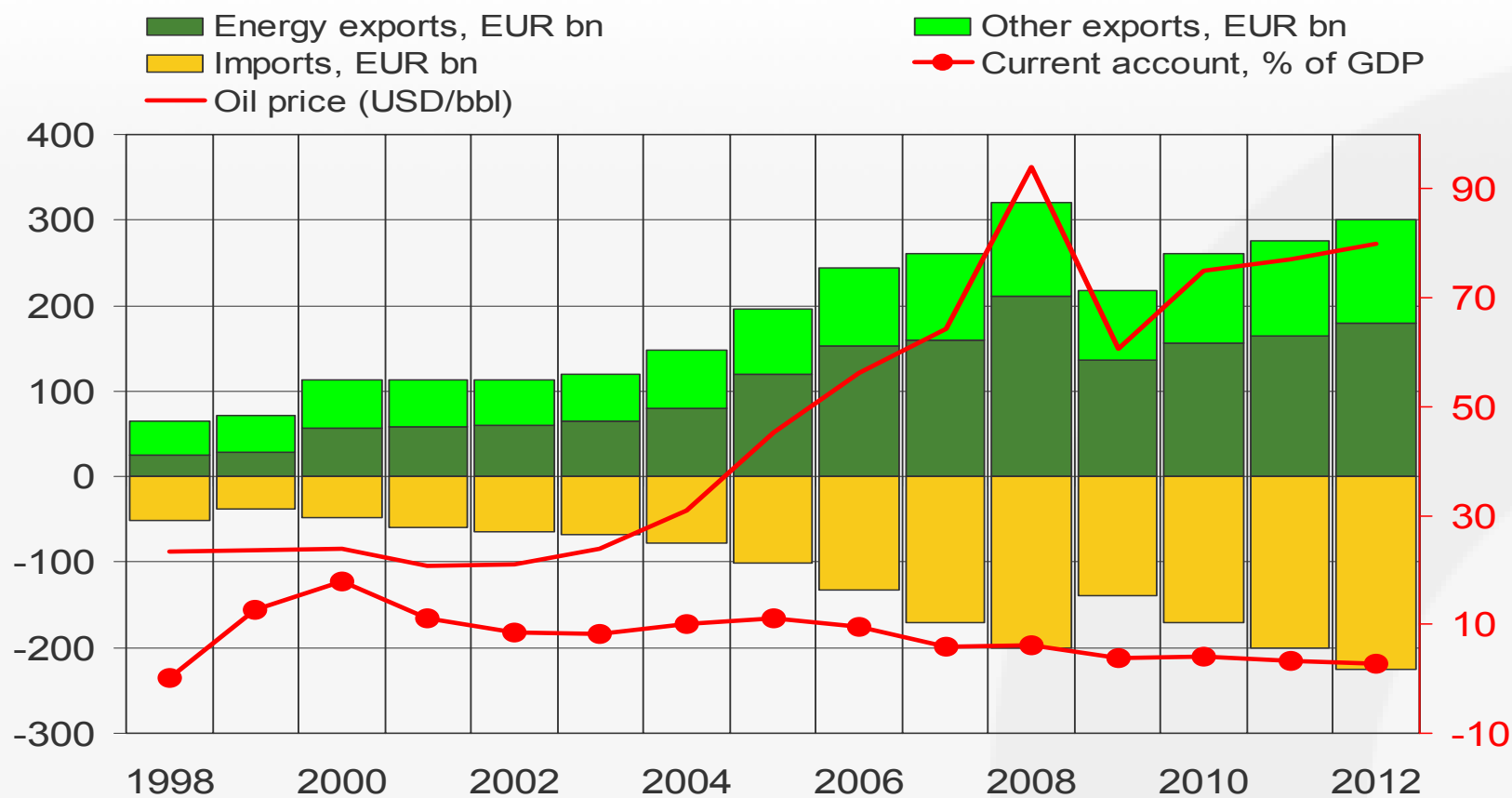
Coping with the global crisis ... (I)

- Federal budget shifted from a large surplus (5% of GDP) in 2008 to a large deficit (about 5.5% of GDP) in 2009
- Reserve Fund (EUR 35 bn out of EUR 107 bn as of March 2009) and domestic debt issuance were used to sustain government expenditures
- More spending on public consumption and investments (government support of the national economy increased)
- Reducing profit tax (from 24 to 20%), raising import tariffs (and delaying WTO accession) and speeding up depreciation charge

Coping with the global crisis ... (II)

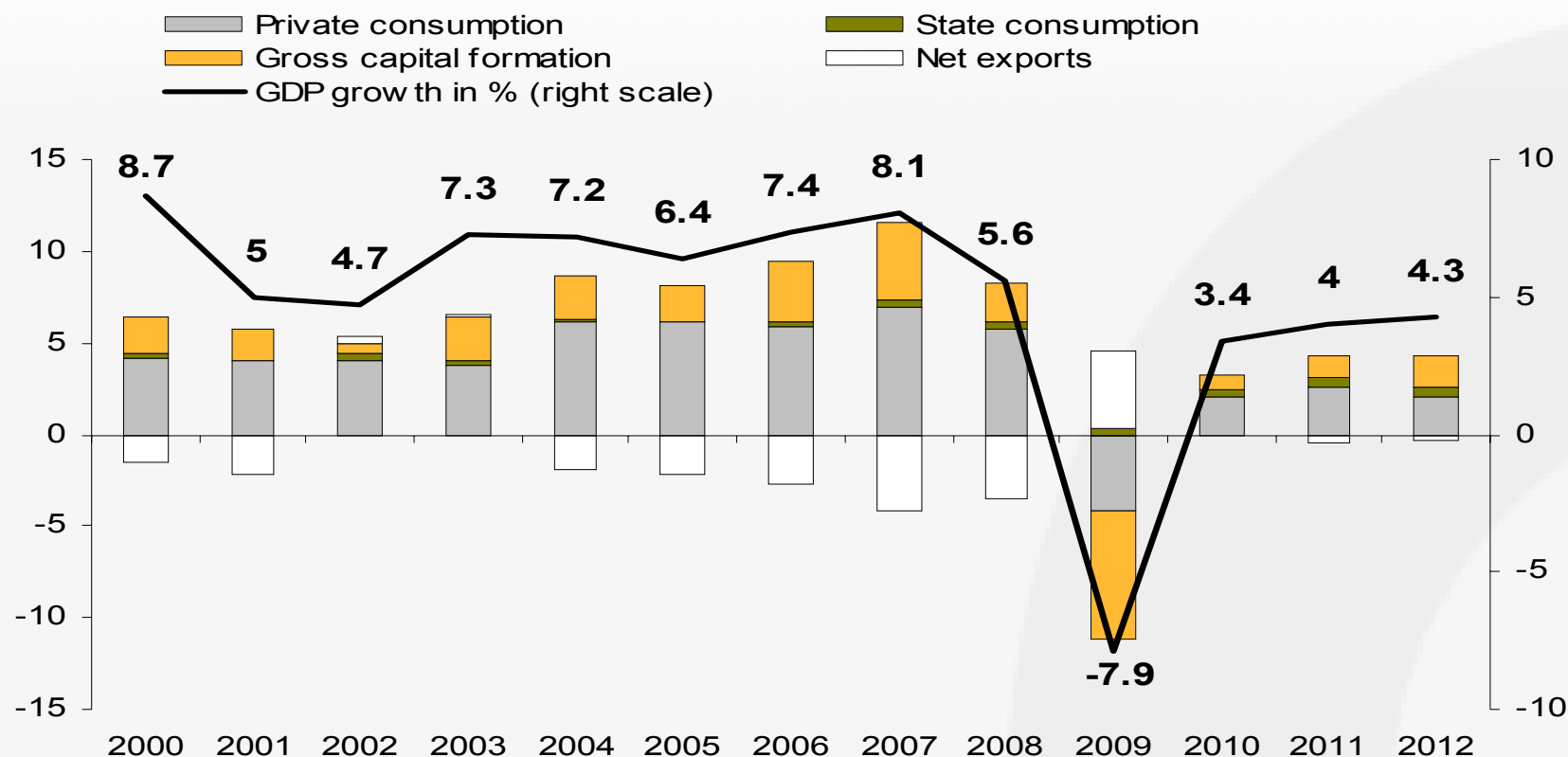
- Russian actions resembled (and partly exceed) Western mainstream policies
 - Recapitalizing domestic banks and raising deposit insurance coverage
 - Takeover of (some) oligarchs' private debts by the state while acquiring stocks as collateral (partial nationalization preventing foreign takeovers)
 - SME and sectoral support, social security and active labour market policies
 - Yet the anti-crisis measures were not particularly effective
- Besides:
 - Managed depreciation of the Rouble helped to keep trade balance surplus but hurt inflation
 - Spending 1/3 of forex reserves (USD 200 bn) to support the exchange rate

External sector adjusted to lower oil prices



V-shaped recovery underway ...

GDP growth in % and contributions of main components to GDP growth, in pp



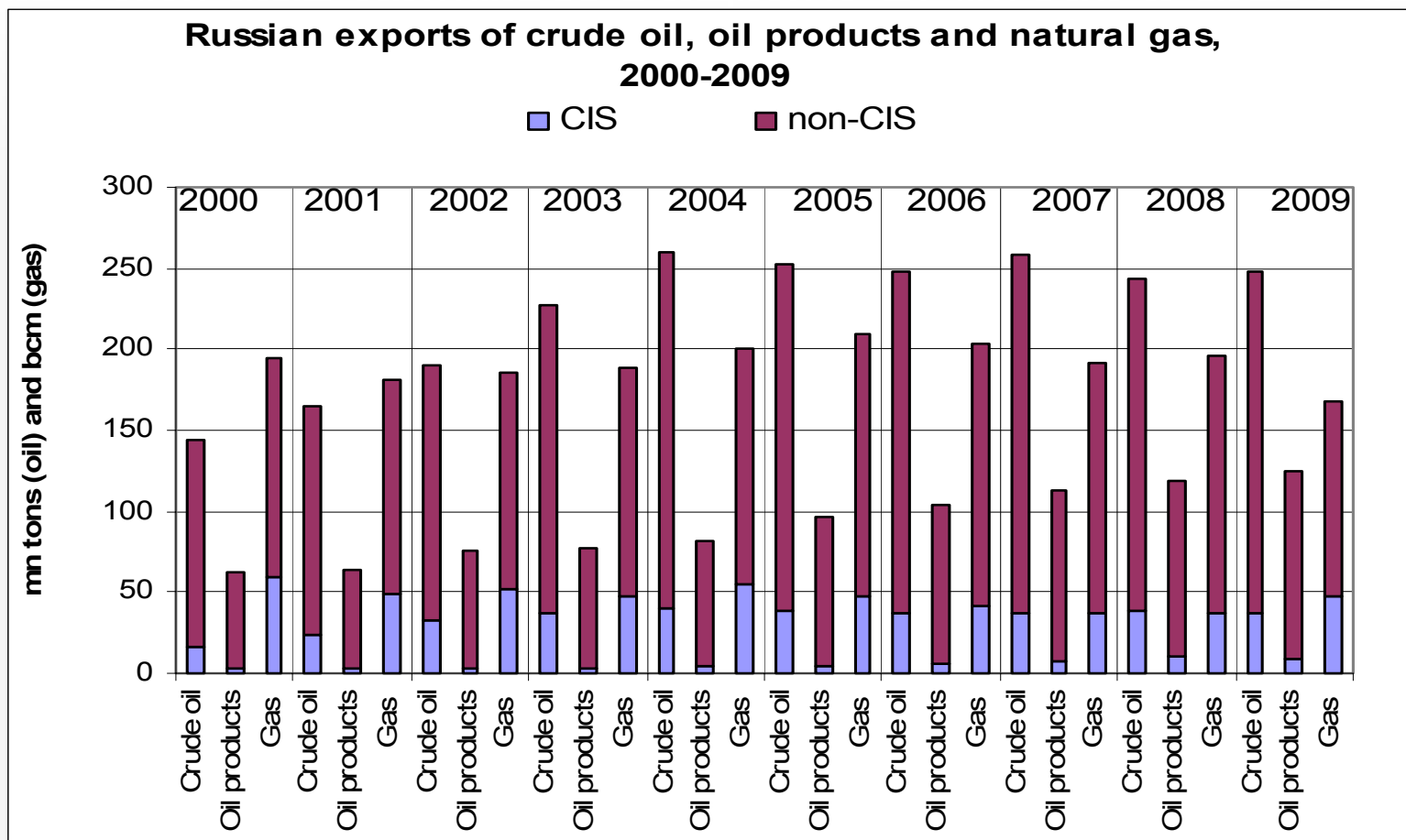
Scenario: Oil price rises from USD 60/bbl in 2009 to USD 70-80/bbl in 2010-2012, resource-based growth

Source: wiiw Annual Database incorporating national statistics, wiiw forecast.

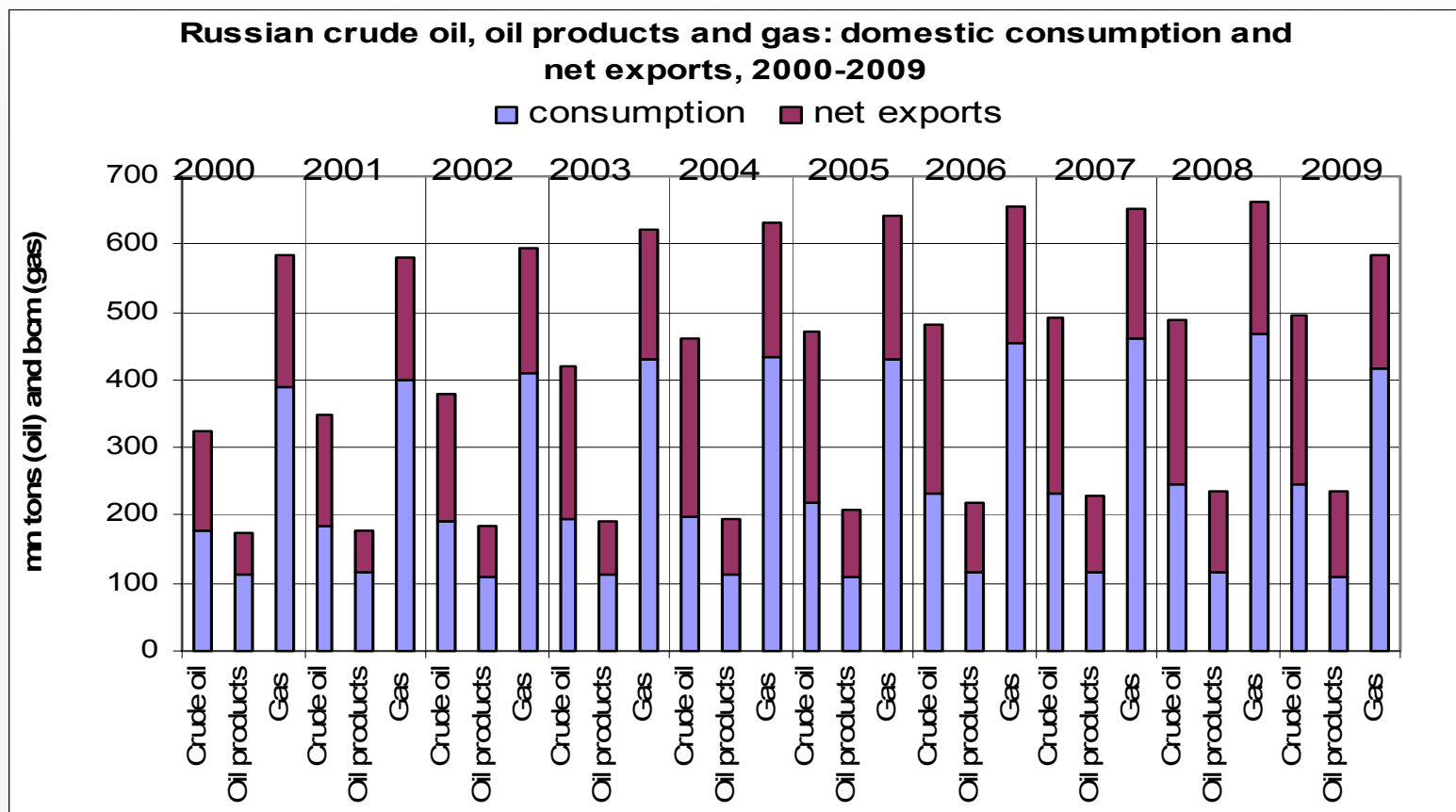
Medium- and long-run challenges

- Medvedev's priorities (four 'I's) still topical:
Institutions, Innovations, Investments, Infrastructure
- Industrial Policy and Public-Private Partnerships to modernise and diversify the economy
- Labour shortages, migrant workers and the loss of competitiveness
- Re-integrating the CIS, a new (Strategic) agreement with the EU (more than energy), accession to WTO ?
- A “reset” of relations with the USA (followed by the EU)

Russian exports of crude oil, products and gas

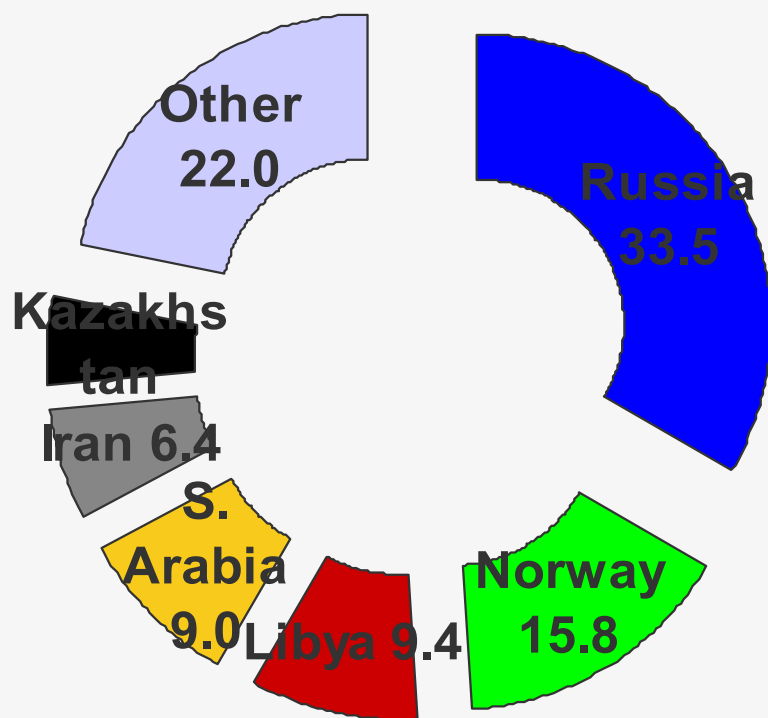


Russian domestic consumption and exports of crude oil, oil products and natural gas

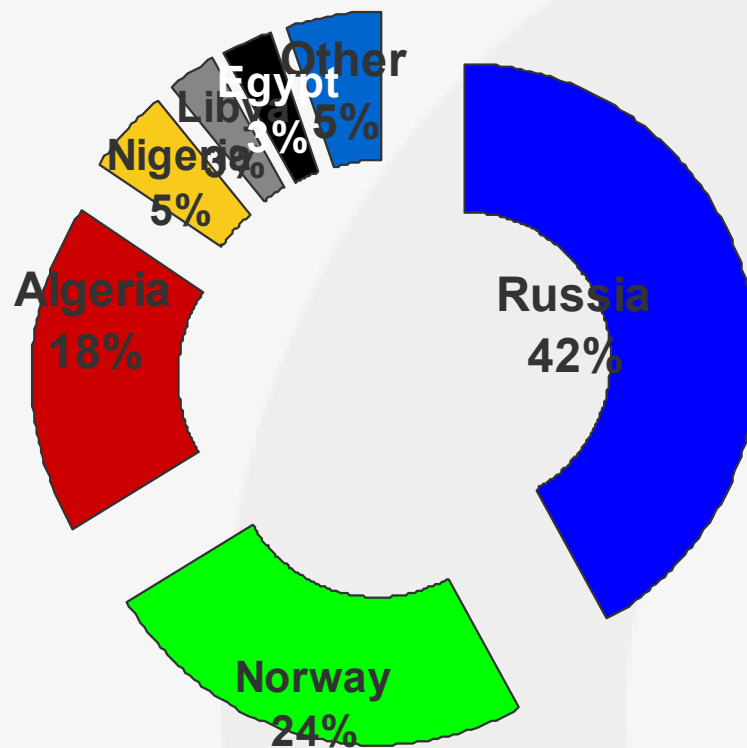


Energy import dependency of the EU (share in total EU imports, 2006)

Oil



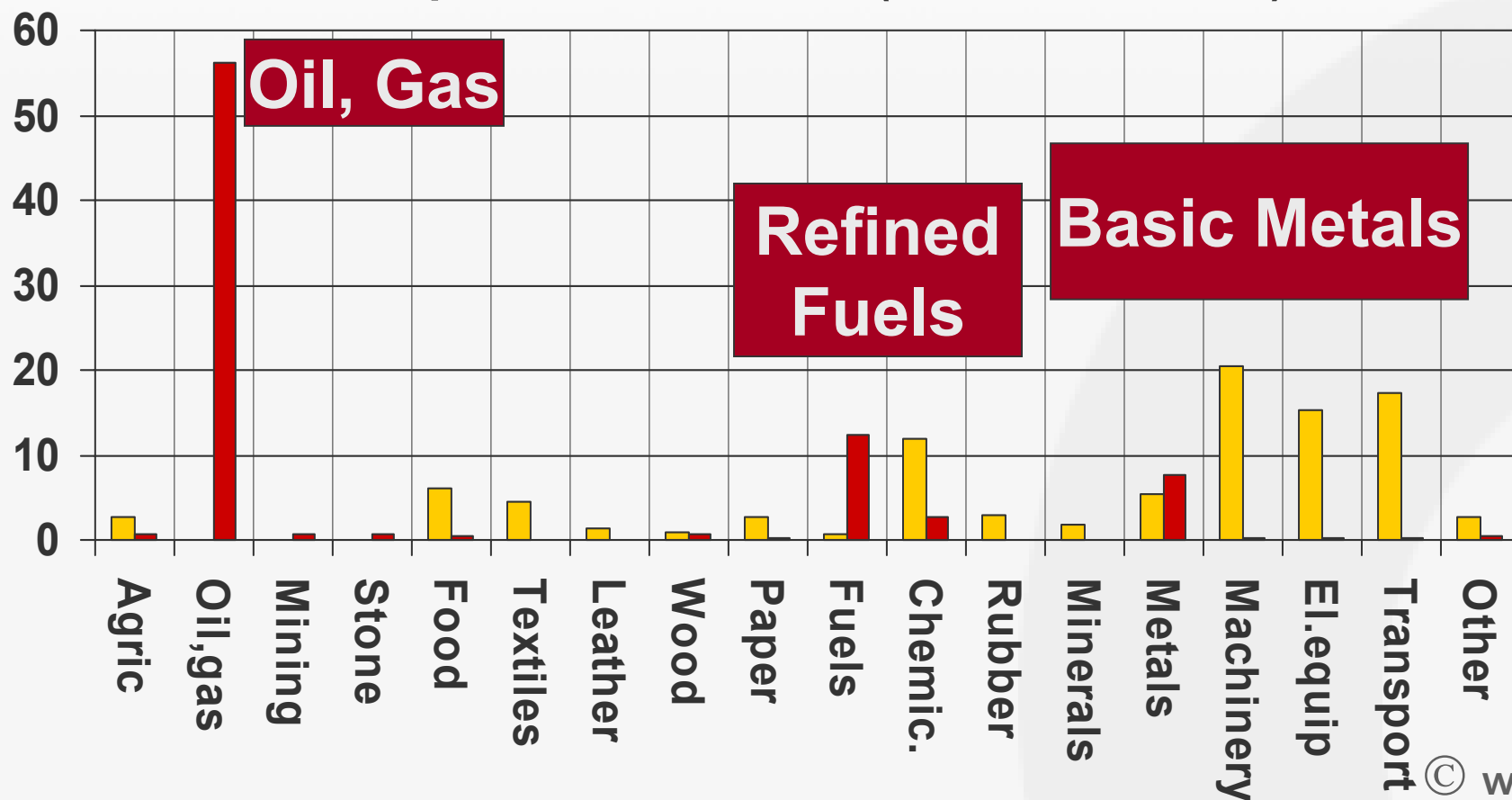
Gas



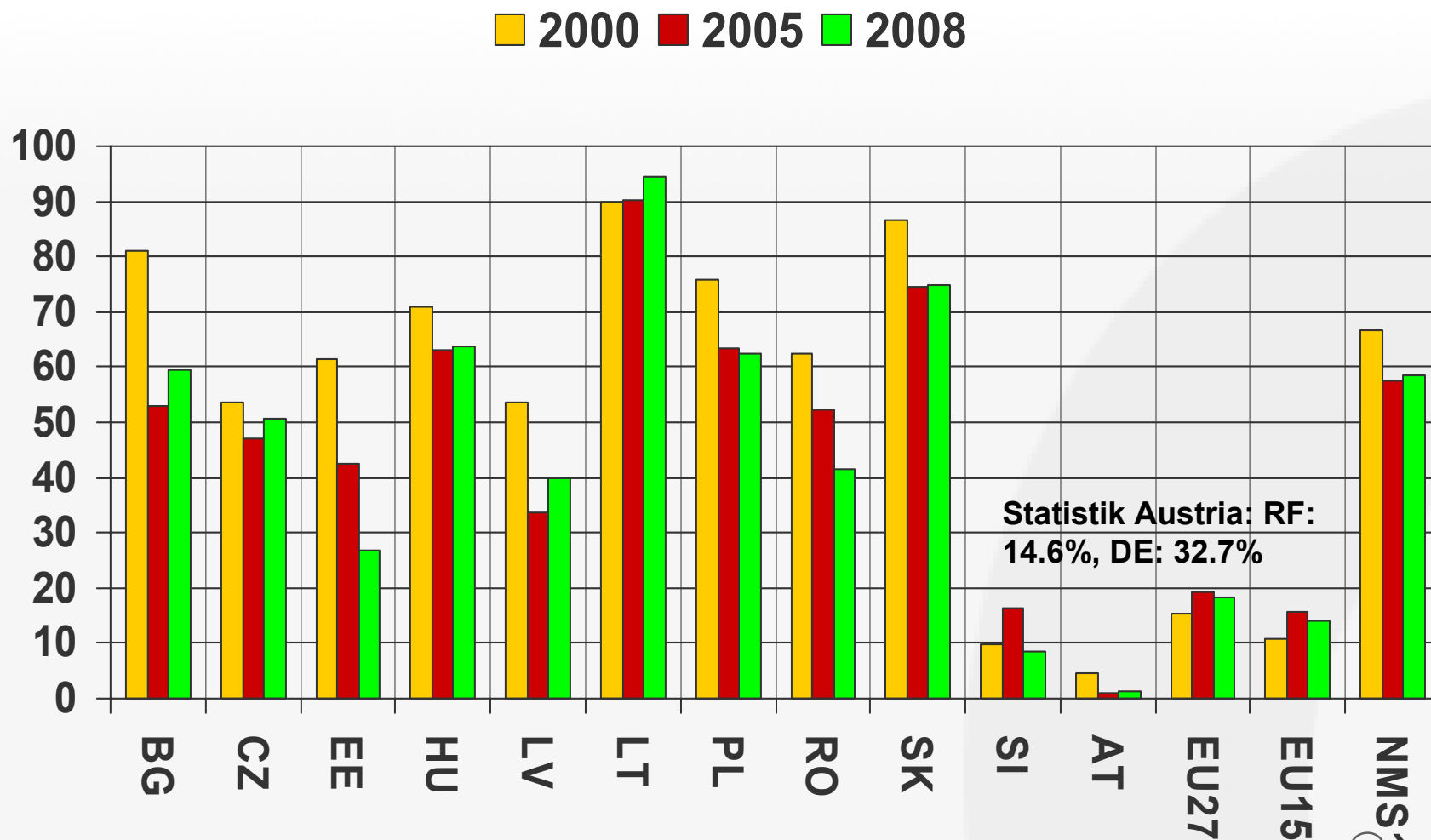
Structure of EU-Russian trade, 2008, in %

■ EU exports: EUR 105 bn (2.6% of the total)

■ EU imports: EUR 174 bn (4.2% of the total)



Shares of Russia in total EU energy imports, in %



Facit and preliminary conclusions (I)

- Both the boom (2000-2008) and bust (2009) illustrate the vulnerability of excessive dependency on energy
- Two thirds of Russian export revenues come from energy, 55% of Russian exports to the EU consist of energy carriers
- 56% of Russian exports go to the EU, but only 4.2% of EU imports come from Russia
- Russia is the biggest EU supplier of oil (33% of imports) and natural gas (42% of imports)
- EU-Russia energy dependency is thus mutual, otherwise there are huge asymmetries
- EU member states differ: NMS are more dependent on Russian energy, there is no uniform EU energy policy

Facit and preliminary conclusions (II)

- Diversification efforts notwithstanding, Russia will continue to rely on energy (exports)
- EU will remain the main market for Russian energy
- Russia has a huge potential for energy efficiency improvements, these may more than compensate falling production and free additional resources for exports
- European energy imports from (or via) Russia can thus be maintained and even increased
- EU-Russia integration is challenging: the contest for influence on the post-Soviet space (in energy Russia may prevail)
- Russia sees itself not just a neighbour, but a strategic and equal partner of the EU
- Re-integrating the CIS (Russia), new (Strategic) agreement with the EU (more than energy), Common Spaces of the EU and Russia ?
- Cooperative approaches would serve best to interests of both Russia, the EU and the countries in between – also with respect to energy security

Open issues (affecting energy security)

- The global crisis effects (lower demand and extraction, tight credit, prices)
- Obama's "reset" of US-Russian relations
 - will the EU follow?
 - ICEUR's "Vienna Process", etc
- Presidential elections in the Ukraine
 - more balanced policies towards both Russia and the EU
 - joint operation of pipelines
 - prolonged instability ?
- Who will prevail in the struggle between "statists" (Putin, Sechin, etc.) and "modernizers" (Medvedev, Shuvalov, Yurgens, etc.)

Thank you for your attention !