



The Policy of the Russian Federation Regarding the Issue of Shale Gas in Europe

The energy sector has been aware of the existence of shale gas for a few decades now, and yet oil companies continue to share the popular belief that extracting this resource would be unprofitable. The major energy companies have not made any significant investments in the development of technologies connected with exploring and extracting shale gas. The smaller companies have taken advantage of this lack of interest, and allocated their efforts in the search of more effective solutions. The success of the small American firms in the 90's attracted the considerable interest of the oil superpowers, which started to buy out smaller firms in order to gain access to their technologies, experience and research. This process has had an influence on the state of energy market in the U.S.: due to the extraction of shale gas on an industrial scale, the U.S. has not only strengthened its energy self-sufficiency and decreased imports of the blue fuel, but most importantly triggered an energy revolution. One can assume that the Russian Federation has for many years been aware of the consequences of shale gas extraction in the U.S. In 2009 Gazprom issued a report on marketing policy in the face of the new situation on the world gas markets.

In the current issue of the “Pulaski Policy Papers” our Research Fellow Mariusz Ruszel analyses the dual approach of the Russian Federation towards the shale gas issue. “Kremlin rulers are aware that there are immense amounts of unconventional oil and gas resources on Russian territory. Russia quickly set to work with the strongest players in the shale gas business, which not only possess the technology but also great experience in this area.”

We encourage you to read the new issue of the “Pulaski Policy Papers”!

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The Casimir Pulaski Foundation is an independent, non-partisan think tank with a mission to promote freedom, equality and democracy, as well as to support actions of strengthening civil society. The foundation carries out such activities as conducting scientific research, preparing publications and analyses, organizing seminars and conferences, providing education and support for leaders in Poland and abroad. The Casimir Pulaski Foundation is one of only two Polish institutions that have a partnership status with the Council of Europe and is a member of the Group Abroad – an umbrella organization of top 40 Polish NGOs working outside of Poland.

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One can assume that the Russian Federation has for many years been aware of the consequences of shale gas extraction in the U.S. In 2009 Gazprom issued a report on marketing policy in the face of the new situation on the world gas markets. The main theses of the report were also published by "Kommersant" in 2010. The newspaper stated that the increase in Liquefied Natural Gas (LNG), which had so far been bought by the U.S., will be mainly allocated for the European markets, causing an excess of blue fuel. The report warned that such an excess on the world markets would adversely affect Russia's long-term gas extraction projects. The report's theses were borne out by the events of the following years.

Russian lobbying against shale gas exploration in the EU

Gazprom's strategy to acquire shale gas is based on questioning its importance to the EU, and underlining its harmful impact on human beings and the environment. At the same time, Gazprom is seeking to acquire extraction technologies, and is planning to initiate relevant activities on Russian territory. Meanwhile, Russians are trying to enter into long-term strategic alliances with energy superpowers by offering them shares in their conventional resources. The primary aim of these actions is to maintain the importance of Russian resources on the world markets, and to slow down the process of shale gas exploration in the EU itself. Some of these activities have been carried out by Gazprom, others by its strategic partners, lobbying and PR companies. It cannot be denied that the Russian firm is spending significant funds on the coordinated marketing and lobbying activities that are being conducted in many EU capital cities. Among European countries, Germany remains a leading partner of Russia. Energy cooperation brings substantial benefits to both countries, with their energy companies and certain groups of entrepreneurs being primary benefactors. These close relations cause Berlin to act as Russia's advocate in the intricacies of the EU decision-making process. This confirms the well-known particularity of interests in the energy sector, which with high efficiency is achieved by the countries of Western Europe. A significant element of Russian lobbying is the European Business Congress (EBC) where numerous decisions on the Russian-European energy cooperation are being made. It is worth noting that the ECB president is the head of Gazprom Alexei Miller. Also significant is the fact that Gazprom makes use of the well-known Brussels-based lobbying firm PR GPlus Europe. At the same time, Russia is seeking to exert influence on public opinion in the EU countries where shale gas potential is greater, and in the countries with the bigger influence on the EU decisions. The deputy chairman of Gazprom Alexander Medvedev gave numerous interviews where he depreciated the importance of unconventional blue fuel. In February 2010 he called the EU leaders to prohibit the extraction of this unconventional resource in Europe, and in April of that same year he emphasized that after shale gas extraction the landscape resembles the moon's one.

The restrictive climate policy of the EU has long been put to use. The destructive effects of shale gas, i.e. poisoned groundwater, earthquakes, the devastation of natural environment are emphasized by the ecological organizations. They underline that it is not only the environment that suffers from the consequences, but the people living in the area of shale gas resources will also be affected.

Another very effective means of influence is the development of strategic partnerships with Western energy concerns. These companies typically have a monopoly on national energy markets. This means that they are reluctant to support plans to liberalise the energy sector, and, by means of long-term projects with Gazprom, they increase the scale of the benefits of their mutual cooperation.

Who cares for shale gas exploitation?

First of all, these are the European energy concerns which have decided to invest their capital both in extracting natural gas (joint projects on gas resources) and the transmission infrastructure (pipelines). Taking into consideration that they would like to regain the invested capital which has been allocated in long-term projects, the competitive option of shale gas – which could lower the rate of their profit – is not within their interests. Especially, since there are more and more energy resources in Europe, and in the face of alternate forms of energy capture and storage in the next few years, finding a customer is going to be a much harder problem.

Secondly, the current EU energy climate policy has created certain beneficiaries who produce installations for generating 'clean energy'. This is mostly about nuclear energy production with the French being the greatest European advocates here, and renewable energy resources where the Germans make the greatest profits. The appearance of competitive shale gas on the EU market would pose a potential threat to all these beneficiaries. As much as the renewable energy is able to defend itself by means of certain EU laws, nuclear energy is not as strongly supported on the legislation level. Therefore, it should come as no surprise that France has adopted a moratorium on mining this resource. Still, after the recent announcement by Germany about the potential of shale gas, one may assume that France will again decide to look into the harmful effects of shale gas, and may even retract the present moratorium.

Strategic cooperation of the Russian concerns

Some actions taken by the European Commission may appear to be an efficient brake on the development of shale gas extraction business on EU territory. At the beginning of July 2012 the European Commission announced an open auction to analyze the present laws in the context of environmental risks arising from shale gas extraction. If a selected company convinces the European Commission that additional laws on environment protection should be introduced, this may consequently lead to delays in exploration and extraction of shale gas in the EU. No doubt Russia will exert a certain influence on decision making here through its strategic partners in Europe. Simultaneously, strategic cooperation with the West's biggest energy concerns gives it the opportunity to take over exploration and extraction licenses in individual countries. According to an unofficial piece of information coming from the European Commission, some Polish licenses for shale gas exploration are owned by Russian entities. Russians are taking over shares of the companies that have acquired licenses for exploration of this resource. Still, similar practices are exercised by Western energy concerns, which have been trying to take over licenses from Polish companies as well. Polish firms have certainly become richer thanks to selling licenses to large energy concerns, but this practice is not in agreement with Poland's strategic interests. Thanks to this license buy-out, Russia can influence the shape of European energy policy more freely, and at the same time realize its own strategic and political goals.

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Russian Rosneft (led by Igor Sechin) signed a strategic cooperation agreement with the American ExxonMobil, which owns certain technologies that may help Russia to exploit the Bazhenov shale play located in the western part of Siberia, the potential of which is estimated to reach 13.2 billion oil barrels. In June 2012 ExxonMobil decided to give up shale-gas exploration in Poland. One may assume that this decision was caused by the signing of the strategic cooperation with the Russian Rosneft. Recent political decisions in Russia, after Putin's re-election, have showed that the energy sector will be personally overseen by the new President and I. Sechin. The recently adopted strategy of energy sector privatization in the years 2013-2015 indicates a consolidation of oil assets. Such actions may be a preparation for the privatization of minority stakes in energy companies in order to develop strategic cooperation and attract capital and technology to Russia. Russia wants to bind its energy resources with western concerns by offering them long-term contracts and a share in the profits.

Conclusions

1. The industrial exploitation of shale gas in the U.S. has increased the amount of blue fuel in Europe and has led to the revision of Russian Gazprom's plans regarding gas export to the American market.
2. The Russian Federation will continue to lobby the EU to tighten regulations regarding environment protection against shale gas extraction. At the same time, Gazprom's long-term investment plans include shale gas production.
3. Russia will develop its cooperation with the largest oil-gas concerns to acquire the necessary technologies for conducting projects on the Russian territory rich with shale oil and gas.
4. Some energy companies that function as Russia's strategic partners will favor the Russian policy as it is within their interest to get profits from the capital invested in the extraction of Russian gas.
5. Russia will indirectly take control over shale gas extraction licenses in the EU, and will exert influence on the speed of works on the individual licenses. It may also manipulate the results of the research.

Recommendations for Poland

1. Polish society should become more resistant to the misinformation regarding the risks associated with shale gas production. The Ministry of the Environment and the Polish Geological Institute, in cooperation with Polish academic institutions, should play a more vital role in providing reliable information about the opportunities and risks attached to shale gas.
2. Poland should actively oppose lobbying against shale gas production at an EU level. It is advisable to build an informal coalition composed of the Visegrád Group members (Poland, the Czech Republic, Slovakia and Hungary), the Baltic states (Lithuania, Latvia, and Estonia) and Bulgaria, Denmark and Great Britain, and make the public aware of the disadvantages and benefits of shale gas through reliable information and marketing campaigns. Such campaigns should be conducted both in the EU countries already possessing shale gas and also in those which do not have potential resources.
3. By 2014 Poland needs to overcome delays in the construction of LNG terminal in Świnoujście, and build facilities to import liquefied natural gas. It is also important that the gas port be developed to include facilities ready to export shale gas export by 2015/2016.
4. Polish energy companies should intensify exploration cooperation on the license they hold. It is especially important that Polish companies coordinate their activities with regard to the Wejherowo license.
5. Poland should develop shale gas production technologies, and Polish energy companies should apply for new licenses in Lithuania and Ukraine.

The Casimir Pulaski Foundation

is an independent think tank which specializes in foreign policy, with a mission to promote freedom, equality and democracy, as well as to support actions of strengthening civil society. The foundation carries out activities both in Poland and abroad, among others in Central and Eastern Europe and in North America.

The Casimir Pulaski Foundation was founded due to political changes that took place in Poland after 1989. The principal values of Casimir Pulaski (freedom, justice and democracy) are an inspiration for every initiative undertaken by the Foundation. A few of the Foundations activities include: conducting scientific research, preparing publications and analyses, organizing seminars and conferences, providing education and support for leaders (www.instytutprzywodztwa.pl).

The Foundation is the main organizer of the Warsaw Regional NGOs Congress (www.warsawcongress.pl), the co-organizer of the Academy of Young Diplomats (www.diplomats.pl) and publisher of the Communication Platform for Non-Governmental Organizations (www.non-gov.org).

The Foundation also awards the Casimir Pulaski Prize “The Knight of Freedom” to outstanding people who have made a significant contribution in promoting democracy. So far the prizewinners were: Professor **Władysław Bartoszewski**, former Minister of Foreign Affairs of Poland, historian Professor **Norman Davies**, **Alaksandar Milinkiewicz**, leader of democratic opposition in Belarus, **Lech Wałęsa** and **Aleksander Kwaśniewski**, former Presidents of Poland as well as **Javier Solana**, former High Representative for Common Foreign and Security Policy, **Valdas Adamkus**, former President of Lithuania, and **Bernard Kouchner**, former Minister of Foreign Affairs of France.

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