

>> Mr Shafranik, how much truth is there in the concerns voiced by Tony Blair that Russia is not such a reliable energy partner as it once was? I wouldn't attempt to simplify understanding of reasons behind the campaign in Europe, which is aiming to portray Russia as a producer of energy resources bent on dictating its own terms. The campaign is using old methods to stir up phobias and induce a state of fear in European public opinion.

The sources of today's so-called aggravation in the sphere of energy relations between Europe and Russia are to be found in the 1990s. At that time Russia was opening its doors and wanted to rejoin the rest of the world. Indeed, Russia needs integration in order to achieve progressive development. Our view then was that we would be welcomed into the common European home. But mistakes in our world view and political stance led to Europe understanding this in a specific sense - namely that Russia would give away whatever it had. Indeed, we did make a large number of concessions.

It is an old truth that what you give for nothing is not valued (by Europe in this particular case). If we gave something away (the Europeans reasoned), it must be because we did not need it. No one gives things away for nothing. We need to understand that and to blame ourselves for making that mistake, and there is nothing to be gained from arguing that we gave things away for free because we expected gratitude and return of the favour in the future.

Now that politics and the economy in Russia have stabilised, now that the country has begun to regain lost positions and to set new challenges in a new dimension - challenges, which did not previously exist - we have encountered lack of understanding and the reaction, which we are observing. No one will be given access just like that. His majesty the law of competition dictates the rules.

Nevertheless, I think that nel-

ther Europe nor Russia had or has any interest in a confrontation.

>> So what is to be done?

It turns out that we don't need to build a common European home - we need to build our own home next door and then to be good neighbours with each other.

Russia currently supplies up to 26% of Europe's oil and gas consumption. After the collapse of the USSR we lost both production and consumption. Our share of the European market slipped almost as low as 15%. We are now making a step-by-step comeback. As we gradually regain our presence on the market we need to be patient and calmly reach an understanding of what is happening. I think that is what the President of Russia is doing. Unfortunately, his efforts are not being sufficiently explained. There have not been enough competent and thoughtful discussions on that topic by recognised experts. It is a topic, which needs discussing not only by us in Russia, but by independent, authoritative representatives of, so to speak, a third party.

I will say more about the mechanics of our return to the market. Simply selling raw materials is bad - not only in Europe, but anywhere in the world. Any producer wants to sell at least some of his product directly on the market, either wholesale or retail.

That is not to say that Gazprom has to bring all of its export all the way to the kitchen stove. But it is important to have some direct presence. Because such presence makes the company more healthy, it links the producer and the consumer. They feel each other better. The producer gets proper signals from the market concerning price and financial returns. And the consumer starts to think, not just about Gazprom, whose name is being used as a frightener, but about fields and essential investments. The gas, which is to come from new fields, is already counted in future consumption. So if production does not begin in the near future, what will we do? Where will gas be found for Europe? So the process of obtaining financial return is difficult and painful. It is not politics, but everyday, tough competition. Access to the retail market and maintenance of a certain share of the retail market is a perfectly logical task.

>> But there are some who don't agree with that approach.

There certainly are.

>> Who are they?

Firstly, those who obtain huge profits from an intermediary role. Intermediaries have been present on the European energy commodities market, particularly the

gas market, for decades. Has any serious economist ever worked out how much these intermediaries earned, between (putting it roughly) Gazprom in its Soviet or Russian form and the cooker in a European kitchen? The sums are huge! They are more than Gazprom ever sees. The intermediary wants to earn the same money today. He is against direct contact between the producer and the consumer. He wants to maintain his positions, despite the fact that Europe has rightfully announced liberalisation of its internal market.

And now we are told that Russia has unexpectedly staked a claim, that is dictating its own conditions. We should react calmly to such suggestions. Sorry gentlemen - no laws have been broken and there is nothing personal at issue. Russia wants to play according to all the rules, doing business in a reasonable fashion, obeying the laws of competition and understanding the actions of its competitors.

But we have the right to ask a question too: what share of the market do we want? 10%, 20% or 30%? Perhaps we don't need 30% of the European market? Is Europe ready to let Russia have such a share of its market and on what conditions? There has to be a joint understanding of the nature of the problems and a joint solution to them.

>> MAXIM MAKARYCHEV / "RG"

COOPERATION IS INEVITABLE

Yuriy Shafranik was the Russian Fuel and Energy Minister in the 1990s. He is now one of the most prominent businessmen in the sector and the informal leader of the Russian oil and gas community, ROSSIYSKAYA GAZETA sought his assessment of the state of oil and gas cooperation between Russia and Europe

A good way of finding answers to the questions is to calculate the Russian oil and gas balance. Rates of growth of gas consumption in Russia and Europe in recent years have been very high. Higher than the rates foreseen in Russia's Energy Strategy up to 2020, which was approved four years ago. According to that Strategy, we should be producing 700 billion cubic metres of gas per year by 2020. According to my calculations, the Russian market will be consuming 550-570 billion cubic metres by that time. Based on those consumption rates, production in 2020 will have to be 900 billion cubic metres. Those are immense volumes. I would point out that Soviet production in 1990 was 815 billion cubic metres. If these figures are realistic, they lead naturally to the question: where will the gas be found? Undoubtedly, during the coming decade, it will be found in Russia... Our country will remain the chief gas resource for the Eurasian region in the coming 25 years. Central Asia currently supplies 60 billion cubic metres per year. And how much will Central Asia supply ten years from now? By my calculations, 70-80 billion cubic metres. The increase is not large. Most of the growth - of up to 150 billion cubic metres - will come from Russia. So the question to western consumers is - do you need those

additional billions of cubic metres of gas by 2020? If you do, then you must provide the cash to produce them. My basic estimates coincide with the position of the International Energy Agency, which declared some time ago that huge investments are needed. I have said before, and I repeat, that fields in the Yamal Peninsula alone need 25 billion dollars in the next few years.

These figures provide a good basis for refuting objections to Russia's position.

But the Russian side must also understand that business needs consistent work: to acquire, buy, deliver, and win over the customer. The customer will appreciate the stability in a situation

where supplies are defined for 20 years. That is natural.

I see the way out of the current situation as follows. There has to be a serious discussion with the Europeans about how much gas needs to be produced. Once that has been settled it can be decided how much money needs to be invested in production, when it needs to be invested and the way, in which it will be provided. Then there should be direct access to the consumer, without intermediaries, offering the customer greater assurance and a lower price.

(The interview with Yuriy Shafranik continues in the next issue)