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FOREVER A PILOT?

ASSESSING THE POLICY DIALOGUE
AND PROJECT-BASED COOPERATION
IN ENERGY EFFICIENCY BETWEEN
THE EU AND RUSSIA



ULKOPOLIITTINEN INSTITUUTTI
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1. Executive summary

Cooperation between the EU and Russia in the field of energy efficiency has come under the spotlight in the past two years. In Europe and Russia alike, enthusiasm and expectations are rising that energy efficiency will become an area for successful cooperation including the EU-Russia Partnership for Modernization and other frameworks for cooperation. Yet, the practicalities of that cooperation can still be characterized as being in the “pilot phase”. This has become apparent in most of the interviews conducted during this study. Despite the enthusiasm, there is a noticeable and recurring feeling of uncertainty over how the cooperation might turn out in practice and whether the declared goals and intentions will be matched by material results. At the same time, the view that was also commonly expressed was that the actors involved in the cooperation activities were ready and willing to steer cooperation forwards onto a more project-oriented footing, not focusing on merely talking and exchanging views and experiences.

In order to assess the possibilities for this development, one needs to examine the current conditions and parameters for cooperation. In doing so, this report assesses the structure and process of cooperation between the EU and Russia in the realm of energy efficiency and aims to address the two fundamental questions: *How is the policy dialogue in EU-Russia cooperation on energy efficiency organized?* and *What lessons can be drawn from the practical activities of cooperation at this stage?*

On the European side, two countries were chosen, namely Finland and Germany because they have established particularly strong relationships with Russia in the energy efficiency sector. Russia is a strategic partner for both countries and a very important counterpart in terms of trade and investments, including the energy sector. The focus on individual member states is also reflective of the fact that the EU-Russia relationship has been increasingly unfolding on a bilateral level between Russia and the EU member states rather than between Russia and the EU institutions. It is therefore important to assess how these levels of cooperation are organized and how they co-function.

Interviews were conducted in Finland and in Germany at the Ministries of Foreign Affairs (and the embassies in Moscow), the Ministry of Economy, and the Ministry of the Environment, as well as the German Energy Agency and a Finnish energy agency, Motiva, and the Lahti Science and Business Park. Similar interviews were conducted at the European Commission in Brussels, and its delegation in Moscow. Among international organizations involved in energy efficiency cooperation with Russia, the Nordic Environmental Corporation (NEFCO), Nordic Investment Bank (NIB) as well as the International Energy Charter Secretariat were approached for this study. The following Finnish private companies took part in the interviews: Planora Oy, Onninen Oy, and Fortum Oy. In Russia, the Ministry of Energy, and the Russian Energy Agency were approached. In addition, the study benefited from discussing these issues with several energy policy experts in all these countries.¹

One conclusion that this report draws is that the overall development is clearly towards the bilateral activities of individual member states with the active involvement of private companies. Both the institutional set-up and the preference of the actors concerned point to this. The European Commission and the common frameworks of Russia-EU cooperation form just one element of cooperation. In fact, practical cooperation is being developed by bilateral actors such as the Finnish-Russian energy club and the Russian-German Energy Agency (RUDEA). Those frameworks of Russia-EU cooperation that involve the EU as a whole (for example the Partnership for Modernization, and the Energy Dialogue) were mentioned as an area where progress was less evident. It has been said that more emphasis could have been put on making the Russia-EU frameworks and bilateral activities more complementary to each other. In this regard, better coordination of the activities of various member states in Russia in the energy efficiency sector is one area where the Commission needs to be more active.

Another conclusion which is based on the findings of the interviews is that the Russian stance towards cooperation in the energy efficiency sector is generally positive.

¹ See the list of interviewees.

Furthermore, the Russian stance has changed from being a largely passive recipient of European expertise and funding to being a proactive partner. This trend has been exemplified in the establishment of cooperation agencies such as the Finnish-Russian Energy Club and the German-Russian Energy Agency. Both organizations were initiated and co-founded by Russia. However, it is still difficult to predict whether this change of heart will be permanent and what impact this proactiveness on the Russian side will have on the cooperation process. The enthusiasm may contain echoes of the high-level political statements and administrative pressure to implement the domestic energy efficiency reforms started in 2009. In addition to the positive statements, some reservations have also been expressed. It was repeatedly stated by the Russian respondents that there was already sufficient awareness of the need to decrease the wastage of energy in Russia and therefore there was little need for European advice or “moral encouragement” on that front. Rather, it is the investments and material contribution to the improvement in the sector that are expected. The second reservation is that cooperation in this sector should not merely become the means for European companies to generate profit – rather, the cooperation should serve the mutual interests and internal priorities of Russia’s economic modernization.

Regarding the Russian position, the European actors should have a more nuanced and critical understanding of it. The attitudes expressed by the Russian actors need to be seen in the context of Russia’s energy efficiency policy and even in the wider political and economic context, and also in light of the way in which the reforms are designed and implemented in Russia. These policy decisions are often implemented in a top-down manner whereby the federal centre sets the targets for the regions and companies involved in implementation. The same tendency is reflected in how Moscow views cooperation with the EU. In Moscow's eyes, it is imperative that the Europeans recognize the Russian priorities and are willing to respond to them with projects that make a material difference (such as direct investments and the localization of technologies). Moreover, Russian policymakers would also like to be able to choose partners on the European side and have as many different ones as possible. This is a trend well exemplified by the number of memorandums of understanding (MoU) that Russia has concluded with almost half of the

EU member states in the past two years. The aim of these agreements is to create a pool of companies of respective European countries which the Russian state could invite for the implementation of various energy efficiency projects.

In some way, this Russian stance corresponds with how some European actors regard cooperation with Russia. There is a widespread feeling that the groundwork of introducing best practices and European examples has been done and the time is now ripe to kick-start the projects that respond to the Russian pronounced demand in this sector. As one participant pointed out, “the time of talking shop is over” and the general expectation is to have a constructive and project-oriented mode of interaction. At the same time, while recognizing obvious profit-driven and economic considerations on both sides, there is clear scope for improving the communication between European partners on their activities in Russia, as well as engaging with a wider constituency on energy efficiency in Russia. This should include not only interested companies and key authorities at the federal and regional level, but also at the municipal level, as well as experts and NGOs.

2. Introduction

2.1 Rationalities and challenges of cooperation

The emergence of Russia's energy efficiency policy and legislation, plus its implementation, which has been ongoing since 2009, has prompted questions about the possible implications of these developments for the EU-Russia cooperation on energy efficiency that has been underway since the early 2000s. The prevailing assumption has been that the existing cooperation would intensify and become one of the areas for development of the Russia-EU Partnership for Modernization, a new framework for cooperation launched in 2010.

There are three main premises why the EU and Russia could be strong partners for cooperation in the energy efficiency sector. These premises include energy security and climate benefits, profit-driven considerations, and political interests.

First, energy efficiency is an important consideration for the EU because a decrease in the energy intensity of Russia's economy would increase the potential to export energy resources to the EU markets, thus partly meeting the EU's energy security needs.² This would also meet Russia's interests as an energy exporter. Moreover, a better, more economical use of energy will also lead to a decrease in the carbon emissions of Russia's energy-intensive industry sectors, resulting in a positive effect on the global climate.³

Second, as Russia's new energy efficiency policy and legislation envisage the active involvement of private investments, there are possibilities for the European actors to make investments in potentially profitable projects. Given Russia's energy efficiency potential, as well as the size of the economy and the harsh and varied climatic conditions, the scope

² International Energy Agency, (2010) World Energy Outlook. p. 230

³ McKinsey and Company (2009) Pathways to an Energy and Carbon Efficient Russia

for investments and the export of relevant technologies and services is significant enough to be attractive to European companies and investors. Indeed, Russia has sometimes been called “the Saudi Arabia of energy efficiency”, referring to the vast energy efficiency improvement potential comparable to the oil wealth of the Middle East.

Third, when compared to other issue areas of the EU-Russia agenda, energy efficiency might have an additional advantage because it fits nicely with the overarching theme of modernization and practical economic cooperation. The new EU-Russia Partnership for Modernization (started in 2010 during the Rostov on Don summit) is largely based on the idea that Russia and the EU should base their relationship on mutual interests towards “enhancing bilateral trade and investment opportunities”.⁴ Also, unlike other sensitive areas in the EU-Russia relationship where progress often stalls due to mutual disagreements (such as the visa dialogue), energy efficiency has a low degree of politicization and generally seems to be more of a technical and economy-driven process than a politically-driven one, a quality that is seen as a factor that facilitates cooperation.

While these premises are generally correct, they should not be taken for granted as their significance and relevance for cooperation depends on other factors. For example, the energy security considerations on the EU side are dependent on the EU’s internal demand for energy, including Russia’s exports, which is difficult to foresee in the long run. When it comes to Russia’s energy efficiency potential and the prospects for European investments, they depend not only on the sheer potential, but rather on the actual demand for such investments in particular sub-sectors as well as on the overall investment climate. The demand for investments, specific projects and conditions for European investors is still defined with the close involvement of the state officials rather than through market instruments. Also, it is still too early to say how the investment climate in general will improve and whether the market for energy efficiency investments will be big enough and well-functioning. In many cases (for example the German energy efficiency projects in

⁴ Joint Statement on the Partnership for Modernization.
http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/114747.pdf

Yekaterinburg), investments have been sustained through the high-level political involvement of the Russian and European leadership.

When it comes to the political involvement and the salience of energy efficiency as a priority for the EU-Russia agenda, it is unclear whether it will retain its significance given the forthcoming parliamentary and presidential elections in Russia in 2011–2012. In order to meet the goals of the modernization partnership – to expand investments in key sectors driving growth and innovation, promote the alignment of technical regulations and standards, as well as encourage the implementation of specific projects – the Russian government will need to press ahead with the energy efficiency reforms in a much more active manner. Currently, some of the elements of the reform have stalled, such as the heating sector reform and the introduction of the new tariff legislation, which would make investments in the heat distribution infrastructure financially feasible.⁵ The reason for putting off the reform reportedly relates to concerns that the increase in tariffs would have detrimental social implications for private consumers. Corruption has also been mentioned as one of the reasons why reforms are proceeding very slowly. Apparently, in the run up to the elections, the government would not like to push for unpopular measures which would otherwise incentivize investments.

These factors need to be taken into account when the prospects for EU-Russia cooperation are assessed. This paper does not focus on each of them in equal detail, but analyzes them as they emerge in the interviews and experiences of the actors involved in the process of cooperation. At this point it is important to emphasize that the cooperation process is highly contingent and it faces important challenges such as uncertainties about the investment climate and the further advancement of Russia's energy efficiency reform, as well as doubts regarding the political commitment of the Russian leadership to the reform.

⁵ Oliphant R. Heating reform could be postponed. *The Moscow Times*, 20 May 2011.

2.2 Defining “cooperation” and measuring “progress”

Despite these challenges, cooperation in energy efficiency received a generally positive evaluation from the people involved. The bulk of the criticism was levelled at the practical side of cooperation: all too often one could hear the opinion that the cooperation outcome has been inadequate to date. Progress is sometimes difficult to measure and, for many, the political side of cooperation seems self-repeating, bureaucratic and somewhat abstract.

At the same time, one might ask how progress in cooperation can best be measured, if at all. It is indeed difficult to assess a process which has no apparent coherent structure or coordinating body, nor a set of distinct goals or objectives of its own. Furthermore, the specificity of this particular sector of cooperation poses difficulties as it encompasses many different sub-sectors such as transport, heat generation and distribution, industry, the power sector and others, each having different potential for international cooperation and specific barriers to it. Finally, even the very definition of cooperation seems rather elusive, as it is unclear what is actually meant when “cooperation” is mentioned; various actors define cooperation in different ways depending on their experiences.

In this study, cooperation is defined as a process in which European and Russian actors envisage or realize activities related to improving energy efficiency in Russia in a joint manner. The cooperation process unfolds on two levels: political interaction, often referred to as “policy dialogue”, and on the level of projects. In turn, project-based cooperation can be divided into two broad categories: activities that raise awareness of energy efficiency within Russia, and training and information-sharing between Russia and the EU. The second broad category encompasses material energy efficiency improvement projects in Russia, realized with the involvement of the European actors (see Table 1).

Element of cooperation	Main actors	Examples/European partner
Political dialogue	European Commission, ministries and governmental agencies, experts	Thematic group on energy efficiency
Energy efficiency promotion and information-sharing projects	Ministries, development agencies, companies, regional authorities	Training programme for knowledge-sharing between Sweden and Russia concerning energy efficiency in buildings and sustainable construction / NEFCO
Physical projects to improve energy efficiency	Banks and financial institutions, companies, regional and municipal authorities	Modernization of communal energy infrastructure / RUDEA

Table 1. Elements of the EU-Russia cooperation in energy efficiency

This distinction is important to make analytically because it is related to the problem of measuring the progress in cooperation. Widely shared by participants in this study, the distinction between “policy dialogue” and “practical projects” seems to come in handy when the actors involved in cooperation are asked to measure its progress.

The most prevalent view expressed during the study was that the benchmark for the progress should be the quantity and quality of material projects to improve energy efficiency in various sub-sectors. In this context, “policy dialogue” is regarded as something abstract and somewhat detached from the realities on the ground. The policy discourse about energy efficiency and Russia’s potential or need to improve is seen as the basis for cooperation. On reflection, it has been said that “policy dialogue” has existed for some time, at least since the late 1990s–2000s, but the “real” cooperation was lagging behind because there were too few practical projects.

At the same time, when asked to comment on projects, the common response was that the practical side was still in the pilot phase and there was not enough evidence to assess the progress. The projects seem too few and far between, and different EU member states have launched their own bilateral projects with Russia which are too recent to be evaluated. Interestingly enough, this perception did not depend on the timing of the projects, such as whether they were completed or just started; projects that were realized at the beginning of the 2000s were also referred to as pilot projects. While this perception may be a reflection of the uncertainties and challenges of cooperation described above, it may also serve to point out that cooperation probably cannot be measured comprehensively by juxtaposing political dialogue and practical projects. The two are elements of one, if rather messy, process and both elements need to be taken into account.

Moreover, with all its fuzziness, the political dialogue and administrative activities related to it (various agencies and structures of cooperation) deserve a thorough assessment in their own right. First of all, it is where national governments and intergovernmental institutions play the leading role of coordinating, expressing political interest, formulating agendas for cooperation and deciding on its implementation. The accountability aspect is important to note here, as the political dialogue activities normally involve public funding and therefore need to bring certain added value to the society from where it originates. Secondly, while most of the material projects are realized with the involvement of business, it is the policy dialogue that functions as a platform for bringing together the state officials and the companies. This is particularly important in the case of Russia, where the state and business are closely interrelated, and even more so when it comes to European companies and investors working in Russia. Finally, the policy dialogue is an important instrument for initiating change, which impacts the practical side of cooperation. For example, the new memorandums of understanding signed by Russia and Finland contain an action plan with a list of practical activities.

This study addresses these issues by examining the EU-Russia cooperation in energy efficiency and in doing so aims to discuss and understand why the feeling of uncertainty is

so strong despite the existing potential for progress. The research addresses two fundamental questions: *How is the political dialogue in EU-Russia cooperation on energy efficiency organized?* and *What lessons can be drawn from the practical activities at this stage?*

2.3 The aims and method of the study

The purpose of this study has not been to examine the technical potential or practical demand for energy efficiency improvement in Russia. Such analysis can be found elsewhere.⁶ Rather, this study specifically focuses on the actors, process, and experiences of cooperation between Russia and the EU in this sector.

Interviews were chosen as the main method of gathering information for the study.

During this phase, interviews were conducted in the Foreign Ministries of two EU member states, Germany and Finland, as well as in the Ministries for Economy and for Environment of these countries. A research trip was made to Brussels in order to discuss the questions with the European Commission's officials and the experts at the Energy Charter Secretariat. A separate trip was made to Moscow to visit the Russian officials at the Ministry for Energy and the Russian Energy Agency. Further interviews were carried out in the embassies of Finland and Germany in Moscow and in the EU Delegation to Russia. In total, 41 persons were interviewed.⁷ The study draws on these interviews as well as on the interpretations and experience of the interviewers. In addition to the interviews, written sources were consulted wherever possible, in particular those related to bilateral agreements between EU member states and Russia, joint action plans and progress reports.

The structure of the study is as follows. The subsequent chapters examine the two main elements of the cooperation process, namely the political dialogue in energy efficiency and

⁶ McKinsey 2009.

⁷ See the full list of names in the Annex.

the project-based cooperation in this sector between Russian and the European actors. The analysis discusses the experiences of the actors involved in both elements of cooperation focusing on Finland and Germany as Russia's European counterparts. Two main problems are identified in each element: the communication and coordination problem in the case of the policy dialogue, and the problem of focus in the case of the project-based cooperation. In the conclusions, the future relevance of energy efficiency as an issue area for the EU-Russia cooperation is discussed. Two sets of recommendations are presented addressing the political dialogue and project-based cooperation activities.

3. The EU-Russia policy dialogue in energy efficiency

As far as the institutional context of cooperation on energy efficiency is concerned, it can be characterized as taking place on two main tracks – between Russia and the EU member states and between Russia and the EU institutions.⁸ The same tendency applies to other areas in the Russia-EU relationship. Energy efficiency is no exception in this regard; rather, it is a good illustration of the “institutional web” that has emerged in this sector. This chapter introduces the main actors of cooperation and concludes with an analysis of their interaction and key challenges.

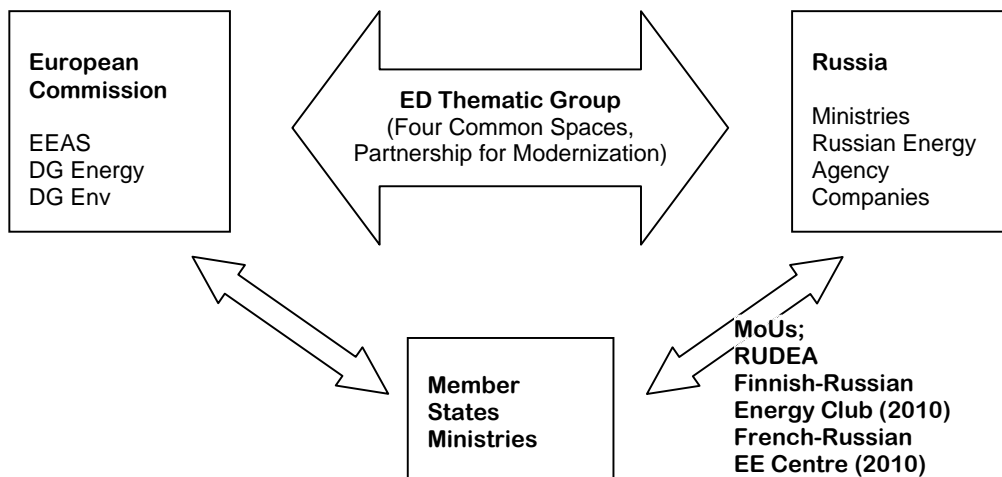


Diagram 1. Russia-EU political dialogue in energy efficiency

⁸ With the caveat that EU member states and EU institutions should not be understood as completely separated entities. National governments are represented in the EU-Russia joint frameworks through various mechanisms of division of competences with the EU.

3.1 The European Commission

As far as the Russia-EU level is concerned, energy efficiency features in several policy frameworks that Moscow and Brussels have established since 2000.⁹ Most prominently, energy efficiency features in the EU-Russia Energy Dialogue (ED), a framework established in 2000 with the aim of bringing Russia and the EU together in the energy sector and ensuring the opening up of their respective energy markets. The ED is linked to other frameworks of cooperation such as the Four Common Spaces (The Common Space on Energy) and Partnership for Modernization.¹⁰

The aims of the ED include “improving the investment opportunities in Russia’s energy sector in order to upgrade and expand energy production and transportation infrastructure as well as improve their environmental impact, to encourage the ongoing opening up of energy markets, to facilitate the market penetration of more environmentally friendly technologies and energy resources, and to promote energy efficiency and energy savings.”¹¹ There are three Thematic Groups that comprise the ED headed by secretariats located in Brussels. The Thematic Group on Energy Efficiency was established in its present format in 2008.¹² The group is co-chaired by a representative of an EU member state and a Russian official from the Ministry of Energy. Since 2001 the group has been co-chaired by Germany. The work of the group is focused on three main objectives: the change of information on legislative and regulatory frameworks; to share experience and knowledge on projects in the field of energy efficiency, energy savings, gas flaring and renewable energy sources; to implement joint projects of common interests. The group meets twice a year, usually in Russia and in Brussels. Its activities include arranging expert

⁹ European Commission (2010) EU-Russia Energy Dialogue. The first ten years 2000–2010. Available at http://ec.europa.eu/energy/publications/doc/2011_eu-russia_energy_relations.pdf

¹⁰ http://ec.europa.eu/energy/international/russia/russia_en.htm

¹¹ <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/121&format=HTML&language=en>

¹² The thematic group received a prolonged mandate in 2006 and started its activity in 2007. See European Commission (2008) EU-Russia Energy Dialogue, Joint Thematic Group on Energy Efficiency Final Report. The two other thematic groups are dedicated to Energy, Strategies, and Scenarios, and to Market Development. It has been pointed out that the discussions in the two other groups have been more political than in the Energy Efficiency group, where they have been mostly expert- and project-oriented.

seminars and exchanging information on legislative and regulatory frameworks in Russia and the EU, sharing experience and knowledge in energy efficiency and other related issues (such as renewable energy), and also implementing joint projects. The group bases its work on annual action plans which are approved by the ministerial Permanent Partnership Council on Energy. The Directorate-General of Energy of the European Commission and the Russian Ministry for Energy are the primary interlocutors involved in the cooperation at this level.

Throughout 2005–2010 the thematic group organized projects including energy efficiency investment projects in Russia's regions, projects aimed at improving energy efficiency in the building sector in Russia, particularly in the administrative buildings, as well as a joint study on energy efficiency indicators. Among the most recent and prominent projects were mentioned a project to support the creation of an energy efficiency management system in Russia in 2009 and a project on energy efficiency indicators in Russia which was started in February 2010. There are also projects prepared in cooperation with other EU-Russia policies such as the Northern Dimension Environmental Partnership (NDEP) and the EU-Russia Environmental Dialogue.

The added value of the Commission's contribution to cooperation has been defined as facilitating the sharing of experiences and good practices, and the ability to operate in a "difficult institutional environment" in Russia, for example in the district heating sector.

3.2 Finland

Finland has been a very active player in the realm of energy efficiency cooperation with Russia for almost a decade, with some projects dating back to the mid-1990s. During this time, many relevant organizations as well as private companies have managed to establish bilateral links with respective partners in Moscow and in the regions, most notably in Northwest Russia.

When asked to define the goals and motivations for cooperation in the energy efficiency sector, several goals were mentioned including the general value of having close cooperation with the neighbouring regions to maintain good relations with Russia. More specifically, the environmental benefits of cooperation have been highlighted, as the improvement in energy efficiency leads to a decrease in CO₂ emissions, reducing the impact on the environment in several industry sectors as well as heating. There are also economic considerations, as Finnish companies are keen to develop their presence in the Russian markets (such as the electricity market, construction, logistics, as well as forestry) and therefore energy efficiency projects are regarded as valuable. Energy security considerations are not regarded as particularly topical for Finland as it is not dependent on Russia's energy even though most of the gas consumption is based on imports from Russia. Finnish interviewees also underlined the similarity in climate between Northwest Russia and Finland, which is helpful in applying the Finnish experience and technologies.

The state bodies that are involved in bilateral cooperation include three ministries – the Ministry for Foreign Affairs, the Ministry of Employment and the Economy, and the Finnish Ministry of the Environment. Most of the projects which are coordinated by the ministries are included in the Programme on Finland's Cooperation in the Neighbouring Areas prepared by the MFA.¹³ These include pre-studies on the renovation of the electricity network in small villages; pre-studies on transforming power plants from coal and heavy fuel oil to wood-based fuels connected with the renovation of the district heating network; feasibility studies on energy efficiency in buildings and the building service system; planning of energy efficient and environmentally friendly district heating systems.

In addition to bilateral projects, Finland also takes part in projects realized by the Nordic Environmental Finance Corporation (NEFCO) which, according to the Finnish perspective, can be considered bilateral because Finland is a member of NEFCO and the ministries have a say in its activities by being represented on its board.

¹³ From Support to Cooperation. Finland's strategy for cooperation with the neighbouring areas. Ministry for Foreign Affairs 2004.
<http://formin.finland.fi/public/default.aspx?nodeid=34823&contentlan=2&culture=en-US>

Finnish-Russian cooperation has been strengthened by the signing of the Memorandum of Understanding (MoU) on cooperation in the field of energy efficiency and renewable energy between Russia's Ministry of Energy and Finland's Ministry of Employment and the Economy in February 2010. The goal of the MoU is to facilitate joint projects in the energy efficiency sector and the use of renewable energy sources between private companies, research institutes, and regional and municipal bodies at all levels including the federal, regional and municipal level in Russia. The agreement envisages practical cooperation being conducted in the form of pilot investment projects, the development of partner relations between research centres, information-sharing, joint analysis of barriers to projects in energy efficiency, and the arranging of conferences and seminars on relevant topics. A special Finnish-Russian Intergovernmental Commission working group on energy has been tasked with implementing the memorandum. It should be pointed out that the MoU is not an intergovernmental treaty and, as such, it does not have legal power. Its main function is to declare the interest in cooperation, but it does not bring any further incentives for cooperation.

Perhaps the most interesting new addition to the cooperation process between Finland and Russia was the establishment of the Finnish-Russian Energy Club in 2010. The Energy Club was founded by the Federation of Finnish Technology Industries, Finnish Energy Industries (ET), Fortum Corporation, Lahti Science and Business Park, and engineering consultancy Pro-Team Ltd, founded to advance practical cooperation between Finland and Russia in the promotion of energy efficiency and renewable energy in Russia. The Energy Club was established as a spin-off of the MoU and is seen to function as an organ of cooperation between Russian actors and enterprises, industry lobby organizations and public sector organizations in Finland.

3.3 Germany

Much like Finland, Germany has conducted intensive and longstanding cooperation with Russia, also in the energy sector. Several federal ministries are involved: the Ministry of Economics and Technology, the Ministry for Environment, as well as the Ministry for Foreign Affairs. A core actor in this sector of cooperation is the German Energy Agency (DENA). The motivations for cooperation are similar to Finland (the possibility of exporting technologies, and maintaining good relations with the strategic partner), but energy security has also been mentioned, reflecting the growing share of Russia's gas imports in Germany. In the view of one respondent, Germany sees cooperation with Russia also as a way to facilitate change in the country. Consequently, there is a certain mixture of pragmatism and optimism in German's stance on cooperation with Russia. With this in mind, Germany accepted Russia's proposal to establish the bilateral Partnership for Modernization in 2008, which subsequently became an EU-Russia framework.

German participants are proud to underline that bilateral cooperation with Russia preceded the EU-Russia format and originated in the mid-1990s. The German Energy Agency (DENA) has been at the forefront of the cooperation, primarily organizing seminars and pilot projects. DENA's role was crucial in setting up the German-Russian Energy Agency (RUDEA) in 2008, which has been based in Moscow since July 2009. RUDEA is a company under joint German-Russian ownership. The German Energy Agency has 40% ownership rights, while Russia has 60% (divided between the Russian Carbon Fund and Gazprombank, 30% each). This division was intentional so as to anchor the new agency as firmly as possible in Russia and increase the sense of ownership on the part of the Russian participants. RUDEA's board includes representatives from the German Ministry for Economics and Technology, and DENA, as well as the Russian Ministry of Energy, and the National Carbon Fund. There is also the Board of Experts, where several other ministries are represented as well as German companies.

RUDEA has an office in Moscow on the premises of the German business centre and employs highly professional staff, many of whom have a background in public service in

the Russian ministries. The current director is German while his deputy is a Russian national. The goals of the Agency are threefold, namely:

- to facilitate the implementation of Russia's energy efficiency policy
- to foster the emergence of the market for energy efficiency technologies and services in Russia
- to increase the export potential of Russia's power and fuel sector

The priorities are identified as energy efficiency in the power sector (for example electricity and its distribution), energy efficiency in the industry sector, the development of renewable energy sources, energy efficiency of public lighting (such as street lighting), and energy auditing.

Yekaterinburg and the surrounding *oblast* in the Southern Urals has been defined by Germany as its priority region in Russia. The choice was determined by the fact that the oblast is highly industrialized with considerable potential for energy efficiency. Moscow was also clearly interested in creating a showcase pilot region, as Yekaterinburg profiles itself as the future "energy efficient city".

3.4 Russian actors

Energy efficiency has risen on the Russian political agenda since President Medvedev took office, and has been linked to his modernization project, as well as Russia's climate policy efforts. The law on sectoral energy efficiency programmes argues that energy savings can support the Russian economy by allowing more oil and gas to be exported, boosting the competitiveness of the economy globally, and improving the overall quality of life for the Russian population.

The range of state organizations in Russia involved in one way or another in international cooperation on energy efficiency has been rather wide and complex, despite the fact that people with professional qualifications in this area have been thin on the ground. The

situation seems to have been helped in 2009 when Russia's Energy Agency was created under the auspices of Russia's Ministry for Energy. The goals of the Agency are to implement state energy efficiency policy and legislation, to coordinate the interests and activities of private companies working in the energy efficiency market, as well as to make the energy efficiency sector more attractive to investors. The agency has 70 regional offices throughout Russia and employs more than 2000 people. The Russian Energy Agency existed before 2009 in a different capacity of a governmental body in charge of, among other energy-related issues, statistics and information gathering on energy saving consumption. The premises and some part of the personnel have been transferred to the Agency in its new capacity as the energy efficiency agency.

As far as international cooperation is concerned, the agency has been very active in signing MoUs with several EU member states including Finland and Germany, Sweden, France and Italy. In addition to working on MoUs, the agency has been promoting the idea of establishing bilateral energy efficiency centres with each country it has signed a memorandum with. A joint Russia-Nordic centre on energy efficiency is being discussed at present. Denmark and Sweden are said to have supported the idea, while Finland has been reluctant because of the lack of resources. It is not clear what added value such centres would bring should they be established, as there are already many channels for cooperation with overlapping goals and priorities. The Agency itself seems to be lacking a focus for its many activities as it is tasked with overseeing the implementation of the energy efficiency legislation (a raft of measures and targets) throughout Russia's regions, providing assistance and information to all interested actors including private companies, and attracting investments into the energy efficiency sector.

Three ministries are involved in international cooperation on the Russian side, namely the Ministry of Energy, the Ministry of Economic Development, and the Ministry of Regional Development. Not all of these have exact counterparts on the European side and locating the right person in the organizational web has always proved problematic. The involvement of various ministries and agencies seems to vary greatly. For example, it has been said that the German Ministry of Environment has to interact with seven different ministries on the

Russian side, which makes the coordination difficult, particularly because the resources are not always readily available. In addition, the roles and responsibilities of the ministries are not always clear. For example, the Ministry of Foreign Affairs is always informed about cooperation projects. However, in the regions, it is the Ministry of Regional Development that needs to take the lead according to a recent change in legislation. The communication process is not going very smoothly, and as a result some of the projects that needed the approval of one of the ministries get trapped between the two without anyone taking responsibility. Ultimately, cooperation depends on personal connections and networks. For example, it has been said that information-sharing in the Energy Dialogue has been going rather well because the co-chairs of the Thematic Group had been in their positions for several years and knew each other well.

3.5 The role of companies in the policy dialogue

Companies, be they private or partially state-owned energy firms, investing companies or manufacturers of technologies, have a specific role to play in the political dialogue. On the one hand, they are not directly involved in the policy-making process even though the business community is mentioned, for example at the Energy Dialogue level. The companies are, however, consulted at the national level. They are seen as the crucial driver when it comes to the project-based level of cooperation. Since the resources of the policy actors are limited, companies are expected to implement the projects that they find financially attractive.¹⁴ It can be said that the policy dialogue, particularly at the national level, is very much focused on serving as a bridge between the European companies and

¹⁴ For example, 'Fortum commissions new production unit at its Chelyabinsk power plant in Russia'. http://www.energiaklubi.fi/news/fortum_commissions_new_production_unit_at_its_chelyabinsk_power_plant_in_russia/

potential partners and clients in Russia. Both RUDEA and the Finnish-Russian energy club have companies as their main members and stakeholders (on a par with the ministries).¹⁵

On the other hand, it has to be pointed out that the main function of the companies is to make a profit and they cannot be expected to follow the agenda and priorities of the policy dialogue if they do not meet their own assessments. Besides, major companies have their own contacts and relationships in Russia. For example, the Finnish energy company Fortum signed their own Memorandum of Understanding on energy efficiency with Russia following a massive investment in the electricity sector in 2007. Also, major German companies such as Siemens often interact with the Russian authorities in a direct way without necessarily informing the German ministries about their activities.¹⁶

Governmental activities regarding business promotion are not as straightforward: often the ministries and policy actors facilitate the initial phase of the project by commissioning a feasibility study, for example. If a small pilot project looks promising at the feasibility study stage, there is more likelihood that the companies who could implement the project would be interested in submitting their bid. Feasibility studies also serve as an “anchor”, or way to introduce other companies to the Russians. In this regard, there might even be a risk of competition between different European companies (and EU governments that promote the companies). Such a possibility had been addressed by the informants in this study, even though no concrete case of competition was mentioned.

3.6 The problem of coordination

Coordination appears to be a major issue when it comes to interaction between these different levels of cooperation, and a thorny one at that. All the actors are aware of each other's presence, yet in practice any coordination of activities takes place only sporadically. One useful exercise that was mentioned was a seminar that the European Commission

¹⁵ See the list of members for the Russian-Finnish Energy Club.
<http://www.energiaklubi.fi/members>

¹⁶ As mentioned in the interviews conducted for this study.

(Thematic Group) organized in 2008 to bring together all the member state representatives with projects in energy efficiency in Russia in order to exchange information. However, this has not led to a permanent exchange of information.

On the one hand, a certain degree of complementarity is inbuilt in the institutions of cooperation. The Commission is seen as the overarching coordinating body that is engaged with the high-level policy dialogue with Moscow, while the practical side of cooperation should be delegated to member states and their bilateral projects. A possible advantage of bilateral cooperation is that it is easier to identify the relevant counterpart at the inter-ministry level.

The inter-ministerial dialogue seems to be difficult because the policy-making and priorities of the ministries do not correspond among countries. For example, Russia's Ministry of Energy is formally tasked with the implementation of the energy efficiency policy, while the expertise and the initial driving force (in carrying out the legislation of 2009) has been situated in the Ministry of Economic Development. It is also difficult to coordinate projects that cut across different areas of responsibility. For example, Russia's Ministry for Energy is responsible for renewable energy, but there are projects on water reform and nature conservation that would be connected to renewable energy. Recently, the German Ministry of Environment started a project on forestry with Russia.

On the other hand, the lack of coordination to date is not seen as entirely negative because the amount of work that needs to be done is so vast that an overlap in activities is not very likely. As one participant pointed out, "Russia is so big that there is work for everyone".

Coordination, or the lack thereof, is related to the resources the actors are able to invest in their work. As far as the energy efficiency sector is concerned, the resources have been scarce. In the European Commission there are only two persons directly tasked with coordinating the work at the EU-wide level, while in the ministries there is usually one person who is directly responsible for cooperation in this sector.

One reserve that has not been fully utilized is the foreign ministry and its embassies. The present role of foreign ministries in the energy efficiency sector is somewhat unclear – they are tasked with facilitating the dialogue and “keeping the cooperation going”. At the same time, the embassies are not involved in concrete projects, nor do they make any decisions concerning funding. The MFAs themselves rarely have their own funding for energy efficiency projects; rather, the funding is allocated to projects in other areas. The ministries, on the other hand, have their own funding specifically for energy efficiency (or environment-related) projects. For example, the German Ministry for Environment has its own funding facility, which is seen as a major asset (perhaps also in terms of independence from other ministries).

Overall, it seems that the European actors would prefer to rely on their own “national” capacity to establish the relevant contacts and initiate projects rather than go through EU-Russia frameworks and channels of cooperation. When compared to the Energy Dialogue and other EU-Russia institutions, the bilateral cooperation has been presented as having such assets as flexibility, and a lack of excessive bureaucracy. The ownership and administration is also seen as better because it includes more Russian staff, which improves the integration of these organizations. One could say that they are working at grass roots level and achieving good, if tentative, results. Few concrete ideas have been presented as to what should be done to improve the coordination. One alternative would be to establish some sort of virtual platform for exchange of information, which all the European actors would have access to. Getting feedback from partners was mentioned as even more useful than simply sharing information, and most of these requests were addressed at the European Commission level.

4. Project-based cooperation: experiences and lessons

The previous chapter described the policy dialogue between Russia and the EU in energy efficiency. This chapter will focus on the second main element of cooperation, namely project-based cooperation. The principal questions that this part of the study addresses include the following: *What kind of experiences have the actors gained?; What problems occurred?; What are the main lessons to be drawn from these experiences?*

4.1 Main types of projects

The bulk of the projects that are currently being realized in the framework of EU-Russia cooperation in energy efficiency can be divided into information-sharing and awareness-raising activities, and physical or material projects which aim to improve the energy efficiency in various sub-sectors. Table 2 illustrates these two categories of projects.

Type of project	Main activity	EU partner country
Information-sharing and awareness-raising	Development of regional strategies to improve energy efficiency. Includes assessing potential for improvement in the regions and locating the best candidates.	Germany/RUDEA
Material energy efficiency improvement	Transfer of heat production to biomass power in Sortavala	Finland/Rus-Fin Energy Club

Table 2. Examples of information-sharing and material projects in energy efficiency

This division is not purely technical as it reflects a certain internal logic of cooperation. While the political dialogue provides an institutional framework for cooperation, projects are meant to supply the relevant substance. As mentioned in the introduction, there is a gap

between the potential or “need” for energy efficiency improvement in Russia and the actual “demand” to implement practical projects in this sector. Moreover, there is an implicit assumption that through successful realization of the projects, the “demand” will increase, thereby leading to more projects in the future. In this regard, the information-sharing projects are aimed at raising awareness of the need to improve energy efficiency so it would translate into an increase in demand. Obviously, there are other factors at work that limit the demand, such as the functioning of administrative instruments, legislation, the availability of financing and political support for the projects in Russia. An analysis of these factors can be found elsewhere.¹⁷ This chapter focuses instead on the experiences and concerns expressed by the actors involved in the project-based cooperation.¹⁸

4.2 Concerns related to Russia's energy efficiency legislation

The first set of concerns is related to Russia's energy efficiency framework law, adopted in 2009. The implementation of the new legislation has only just begun, and it is therefore too early to assess its success.¹⁹ Some delays have been experienced, and the law may be extended (meter installation deadlines). There are also some open questions, such as the ban of small-size incandescent light bulbs, which is currently just an option in the law. The law also draws many links to other legislation in the energy sector, for instance energy pricing and the construction of buildings. It is important to point out that the implementation of the policy and therefore the significance of this process for international actors vary according to sector (district heating, industry, and so forth) and region in Russia. Consequently, it is very difficult to summarize the implications into a generic analysis which would be applicable in each and every case of cooperation. Yet, it is fair to say that the ongoing implementation of the law will have direct implications for the international actors in this sector, including European actors.

¹⁷ Korppoo 2005.

¹⁸ The projects referred to in this study are listed in Annex II.

¹⁹ For more on the legislation, see Korobova and Korppoo 2011.

The possible implications for cooperation can be divided into two categories corresponding to the main types of project-based cooperation: awareness-raising and material energy efficiency improvement projects.

The measures to raise awareness about energy efficiency have implications for both policy actors and private companies in terms of the harmonization of labelling standards between Russia and the EU, thus creating a need for more exchange of information and practices between the two parties (this work can be done in the framework of the Energy Dialogue, for example). Also, the requirement for regular energy audits, prescribed by the current legislation, underlines the need for adequately trained professionals and companies in this sphere. The demand for energy auditors and energy economists in general is particularly significant in Russia's regions and municipalities, and the European training programmes for Russian staff are particularly welcome. In addition, the European experience is worth examining when it comes to raising awareness among the wider population by reaching out to specific audiences such as tenant collectives (*objedinenie zhiltsov*).

As far as the material energy efficiency projects are concerned, the implications are mostly felt at the company level and stem largely from the fact that financing the implementation depends on private sector incentives to finance the outlined reforms. This alone does not make this sector more attractive to foreign investors, but it does highlight the importance of improving the investment climate, particularly in the regions. In this regard, the most significant element of the law relevant to the private sector is the introduction of long-term tariffs in the power and heat sectors. The RAB pricing in the heat sector can be considered an innovative tool to provide economic incentives for the heat generators and suppliers. Long-term heat tariffs make it easier for possible investors to calculate the financial feasibility of investment projects. It is hard to foresee whether the investment climate will improve significantly as a result, however.

The legislative focus on the most cost-effective improvement potential is important as well, as this has long been the criteria for European partners when selecting international projects in Russia. The focus of the energy efficiency law – the financially viable potential

of energy efficiency improvements – therefore corresponds with the overall logic of the European partners, which could make the selection of joint projects easier for both sides. The energy efficiency law addresses some of those sectors where the cost-effective principle applies the most, especially buildings²⁰, industries, and power and heat. Further, and somewhat less directly, some of the outlined industrial improvement potential, and subsequent international projects, may be supported by the investment tax breaks introduced in the law, while the long-term heat tariffs are likely to provide incentives for infrastructure updates such as pipeline replacements.

Another implication for European actors concerns the introduction of energy-saving contracts (ESCOs). Finnish actors, for example, have tried to introduce ESCOs in Russia, but thus far the lack of legislation and economic incentives has made these practices unfeasible. Several projects that were aimed at transferring the European experience of energy-saving contracts failed for this reason. One should note, however, that significant differences exist when interpreting the term ESCO and also its practical application in Russia and in the EU. The mere appearance of the term in the legislation should therefore not be confused with its actual application.

4.3 Concerns related to the quality of institutions

The quality of the institutions in Russia has been a cause for concern despite the fact that the executive strength of the institutions in the energy efficiency sector was improved in 2008-09 with the establishment of the new structures described in the first part of this study. One source of this concern is the top-down approach to policy-making and implementation, which puts too much weight on the federal-level institutions, such as the ministries in Moscow and the Presidential Administration. In the regions, the decisions taken by the federal centre do not always get implemented as intended. Despite the top-down approach to governance, federal centre decisions get blocked because they are not seen as best suited to the needs of the region. Or there may be other reasons for this, such as poor personal

²⁰ Consumer goods are included under the category ‘buildings’.

relations between different authorities, for example between the governor of a region and the head of administration of a city.²¹

Moreover, the institutional environment that would include society at large, such as experts, NGOs, and business associations that are interested in energy efficiency improvement, is lacking. In other words, there is a lack of an “energy efficiency lobby” in Russia. For example, in Germany such a lobby does exist and is a significant factor in the nation-wide debate on energy-saving, tariffs, economic instruments and other issues. Since this debate is lacking in Russia, the European actors are in a position to rely on the state administration, and this is one of the reasons why institutional quality is crucial for successful projects.

The weakness of the societal milieu is generally perceived as an impediment. For example, it is difficult to locate a partner in Russia that has not been “appointed” by the officials, or who has had experience of working with international partners. One example was provided by a Finnish energy company that started a new energy auditing programme in Saint Petersburg in 2006. The partner on the Russian side received the funding from the Finnish Foreign Ministry’s neighbourhood programme, but could not deliver what was promised. The partner eventually withdrew from the project and the Finnish participants had to look for another organization in Russia. A new partner was found who had worked with Finnish companies before and in 2008 a new project proposal was submitted. The project was, however, delayed again because a new authorization by the city administration was needed in order to proceed with the new partner.

4.4 Concerns related to funding

Funding problems stem from the quality of the financial instruments and the readiness of banks to participate in the sector. The banking sector is crucial for the successful

²¹ One such incident was mentioned in the case of a project administered by RUDEA when the poor personal relationship between the governor of the Sverdlovsk region and the city of Yekaterinburg had a detrimental effect on the project because the two authorities needed to reach a decision, but due to administrative infighting this decision was not forthcoming.

implementation of the projects, but there is still a need to build the capacity of the regional Russian banks. Often, international projects require a financial mediator, a bank that could handle the financing side in terms of loan transfer, pay-back periods and other issues. The European banks cannot play this role as they need authorization to work in Russia. Moreover, Russia's regional authorities and municipalities are not allowed to apply for loans from the foreign banks. As reported by the respondents, the lack of such a mediator makes it very difficult for the Russian partners to initiate projects which require additional investments. There are already examples of Russian banks participating in the financing of international projects, such as Sberbank and Gazprombank taking part in RUDEA's projects. Yet, the respondents noted that this does not resolve the problem entirely because when the Russian bank acts as a mediator for a European financial instrument (for instance a loan scheme for infrastructure projects), it adds its own premium, which makes the overall package too costly for potential Russian clients. This is particularly relevant for projects with a long pay-back period (such as district heating) where the clients are municipal utility companies.

Related to the funding problems are transaction costs that are often high in Russia because of the generally high level of corruption and the poorly functioning administrative system.²² Most of the respondents cited two cases in particular (a German project initiated by RUDEA, and a project administered by NEFCO in Northwest Russia). The projects were cancelled because there were serious grounds for believing that corruption was involved.²³ In other cases, the transaction costs occurred due to various delays and difficulties in getting the decision taken by the authorities on the Russian side.

4.5 The problem of focus

The problems discussed above are generally related to the situation on the Russian side and are consequently difficult for the European actors to tackle. Some problems also affect

²² Korppoo 2005.

²³ It appeared that the funding received for the project was misused by a Russian partner.

projects, however, and are largely related to how the European actors organize cooperation. The problem of focus is the most influential problem and consequently one that can be dealt with by the Europeans on their own. The issues related to focus include the geographical scope of the projects and the way in which priorities are set and defined.

As far as the geographical scope of projects is concerned, it is quite apparent that European countries have different preferences as to the location of their projects in Russia. While Finland clearly tends to focus its activities around Northwest Russia, Germany has found a “home base” in Yekaterinburg and the adjacent regions. However, the question is whether the projects should be limited to these areas and whether the practice of clustering projects in one area should be maintained in the future. For the time being, it seems that the clustering approach is more favourable than “thinly spreading” the projects around a larger geographical area or moving them to new regions. However, additional attention should be paid to learning from past experiences and existing projects in order to be able to initiate projects in new regions or respond to the initiative that might come from new prospective partners.

Expanding the geography of cooperation might entail numerous challenges, but in the long term it would help both European and Russian partners to uncover more opportunities. A case in point is the Finnish water management international strategy that has a very wide (and perhaps ambitious) scope, covering Central Asia and other regions where Finnish water treatment companies see both potential and a competitive advantage. By sticking to the traditional small “neighbourhood” scope, the projects might not bring the added value of creating a better institutional environment because they would be based on an existing pool of partners and stakeholders. Moreover, the authorities in Russia’s regions may lack experience in dealing with international organizations, particularly at the municipal level. European actors will benefit from making themselves better known in the regions.

Related to this is the issue of defining priorities for projects. How are the priorities set and by whom? The rule of thumb that has been in use so far is that of economic effectiveness: achieving the maximum effect with the minimum investment. This naturally has an impact

on which projects get selected for realization. Another way of selecting priorities is when they meet the commercial or other interests of the European partners. For example, NEFCO tries to maintain the “Nordic value” in all its projects in Russia, which in practice means that Nordic countries (including Finland) should benefit from the projects by having their companies (for example a Finnish or Nordic consulting company to conduct the feasibility study) represented in the projects.

This raises the question of whether this way of selecting priority projects is, in fact, the best one. Does it support the projects that make a qualitative difference in the sector or those that bring the biggest financial return on investments made by the Europeans? It could be recommendable for the European actors to include a category like “development value” when evaluating the projects that were realized with their involvement. It would be important to establish whether the project contributed to the emergence of other projects, brought about institutional improvement in the sector, or had other non-monetized consequences. For example, by linking energy efficiency and environmental benefits, it would be possible to achieve such added development value. Indeed, linking energy efficiency and other development issues such as the modernization of technologies, and the introduction of renewable energy know-how and facilities would also be one way to improve the focus of the projects. This has to do with the fact that energy efficiency is not a distinct issue area, but one which cuts across many sectors. Therefore, an improvement in energy usage may be created as a by-product of another project. For example, the large-scale renovation of the South West water treatment plant in Saint Petersburg has led to an improvement in energy efficiency.

Another issue worth paying attention to is the reliance on the Russian partners when defining priorities for projects. Currently, Russian structures such as the Russian Energy Agency are in charge of screening the regions for new opportunities. However, European actors should not rely on one source of information only. A better knowledge of the regional situation will benefit the existing projects and help in defining the scope and focus of future ones. More in-depth feasibility studies and assessments could be recommended. The best way to proceed would be to define priorities based on mutual interest and the best

knowledge available. It seems that the European actors find it easier to follow the “demand” that emerges on the Russian side and to set the priorities accordingly. However, relying on Russia to set the agenda is not always the best practice, and some opportunities could be overlooked in the process as the Russian actors do not always have the best expertise. A case in point is the emphasis on the usage of peat in heat production, which was included in the cooperation agenda for Finland because the Russian partners felt that this was something that Finland was particularly keen on. In fact, the Finnish expertise and competitive edge may reside in other areas which could be potentially more interesting for Russia, such as the cogeneration of heat, and energy technologies.

Defining priorities is often seen as a political issue. The Russian actors may be very sensitive to any attempt by the EU to “teach” them and can become truculent if affronted. But very often, it is simply a lack of knowledge and communication that is to blame for ill-defined priorities rather than political motives.

5. Conclusions

5.1 Future prospects for energy efficiency cooperation between the EU and Russia

The cooperation between Russia and the EU in energy efficiency can be characterized as a process with a threefold dynamic at work. First, there is a policy dialogue, in existence for over a decade, that has recently been revitalized as part of the Partnership for Modernization. Second, there is a palpable increase in activity on the part of member states. Third, there are more material projects than was previously the case. In fact, the balance may even be shifting towards material projects.

As such, this is a positive dynamic, even though there are serious concerns and limitations for cooperation. The fact that projects are regarded by many a respondent as pilot projects might not be a negative thing in itself. After all, this is the personal perception of the people involved in what appears to be a very fuzzy process with many attendant actors and interests. Repeatedly referring to projects as pilots also reflects the high degree of uncertainty and concern involved in this process. It was argued that further development in cooperation might bring about a change in these attitudes. Yet, the sheer increase in the volume or number of projects is not likely to dispel this perception. Only by resolving the issues and concerns could the cooperation move forward from the pilot phase.

Institutional problems remain the most influential barrier to project implementation. For Russia, it is a daunting task to improve its investment climate and conditions for international projects. However, the actors involved could make better use of the resources that are available, as well as the recommendations that follow.

5.2 Recommendations for the policy dialogue

Communication is the key function of the policy dialogue and one which definitely needs enhancing. Further reform of the Energy Dialogue could be focused on strengthening the role of the Thematic Group as the main interlocutor for communication both with the EU and between the EU and Russia. Better coordination is needed between the member states and the Commission and between the agencies of cooperation that have recently been established (such as RUDEA and the Fin-Rus energy club).

5.3 Recommendations for project-based cooperation

For project-based cooperation specifically, institutional problems remain the main barrier to successful project implementation. The key recommendation would therefore be to sharpen the focus on both information-sharing and awareness-raising campaigns, in addition to material improvement projects. This implies following the “clustering method” to place projects in several of Russia’s regions, defining priorities based on the best expertise available, and linking other development projects to energy efficiency to provide for the “incidental improvement” effect.

Annex I: List of interviewees

Moscow

Matti Anttonen, Ambassador, The Embassy of Finland to Russia

Marja Koskela, Attaché, The Embassy of Finland to Russia

Evgrafov Konstanin, Head of Regional Programmes, Russian-German Energy Agency

Ismo Koskinen, Energy Counsellor, European Union Delegation to Russia

Olga Kryglova, Senior Assistant for Energy and Environment, European Union Delegation to Moscow

Antonina Firsova, Manager, Department for International Cooperation, Russia's Energy Agency

Dr. Igor Leshukov, Director, Department for Energy Efficiency, Russia's Ministry for Energy

Viktor Olkhov, Advisor, Department for Energy Efficiency, Russia's Ministry for Energy

Dr. Ralf Horleman, Political Counsellor, The Embassy of Germany to Russia

Nina Korobova, Expert, Moscow Higher School of Economics

Finland

Heikki Henriksson, Vice President, Power solutions, Fortum Oy

Aarno Laukia, General Manager, Sales, Fortum Oy

Esa Teppo, Manager, Planora Oy

Antti Puputti, Sales Director Onninen Oy

Klaus Mäkinen, Sales Manager, Onninen Oy

Arto Nuorkivi, Director, Finnish-Russian Energy Club

Forever a Pilot?

Assessing the policy dialogue and project-based cooperation in energy efficiency between the EU and Russia

Seppo Silvonen, Lead Consultant, Motiva Oy

Kristiina Isokallio, Senior Advisor, Finnish Ministry for Environment

Laila Housia, Independent Energy Consultant

Hannu Lipponen, Senior Advisor, Energy Department/Basic Energy Production, Finnish Ministry of Employment and the Economy

Severi Keinälä, Head of Division, Innovation Department, Finnish Ministry of Employment and the Economy

Martta Halonen, Advisor, Finnish Ministry of Employment and the Economy

Banafa Salem, Project Manager, Russia Programme, Lahti Science and Business Park

Esko Seppälä, Counsellor (ret.), Finnish Ministry for Foreign Affairs

Elisabet Paulig-Tønnes, Senior Manager, Project Administration, Nordic Environmental Financial Corporation, NEFCO

Yngve Söderlund, Senior Manager, Nordic Investment Bank, NIB

Brussels

Ruta Baltause, Co-ordinator, Thematic Group on Energy Efficiency, Russia-EU Energy Dialogue

Walter Tretton, International Relations Officer, European External Action Service (EEAS), Russia Unit

Dr. Dario Chello, Director for Energy Efficiency and Investment, The Energy Charter Treaty Secretariat

Boris Petkov, Expert, The Energy Charter Treaty Secretariat

Berlin

Dr. Petra Opitz, Manager, DW Econ, German Institute for Economic Research

Alexander Schoenfelder, Head of Unit, International Energy Politics, German Ministry for Foreign Affairs

Sigrun Meyer, Attaché, Environmental International Cooperation, German Ministry for Foreign Affairs

Mattias Dehner, Attaché, International Energy Politics, German Ministry for Foreign Affairs

Jurgen Keinhorst, Senior Advisor, Cooperation with Central European Countries and NIS, German Ministry for Environment

Joerg Kisch, Deputy Head of International Energy Policy Department, German Ministry of Economics and Technology

Dr. Stefan Meister, Programme Officer for Russia and NIS, DGAP

Marcel Vietor, Programme Officer for Energy and Climate, DGAP

Dr. Kirsten Westphal, Researcher, SWP

Oldag Caspar, Researcher, SWP and German Watch

Nargis Wieck, Manager, German Energy Agency, DENA

Annex II: Projects

The following projects materials were used in preparation on this study:

Replacing its existing heat boiler with a new CHP plant in Tara. 2011 (Finland)

Automation and upgrade of the Chelyabinsk district heating system) 2011 (Fortum Oy).

Energy saving at the city level in Arkhangelsk 1997 (Planora Oy).

Study of energy saving potential of the Karelia region 1997 (Planora Oy)

Sustainable Energy Management Training project in Kirishi 2002 (Finland)

Study and analysis of the state of Russia's district heating networks 2011 (Germany)

Transition to biomass fuel CSD Plant in Sortavala 2011 (Finland)

District heating project in Yakutsk 2010 (EBRD)

Developing ESCO-concept in Russia 2001 (Rautaruukki Oy)