

Defuse Russia's energy weapon

Keith Smith International Herald Tribune
TUESDAY, JANUARY 17, 2006

WASHINGTON The recent "gas war" between Ukraine and Russia was viewed by too many in Europe and in America as a short-term crisis that raised questions about Russia's reliability as a stable supplier of energy. It's time the West ended its complacency regarding Russia's willingness to use its considerable energy resources for political blackmail.

Moscow's deployment of the "energy weapon" dates from 1990, when it cut energy supplies to the Baltic countries in a futile attempt to stifle their independence movements. It was again used against the Baltic states in 1992, in retaliation for demands that Russia remove its remaining military forces.

In 1993 and 1994, Russia reduced gas supplies to Ukraine, in part to pressure Ukraine into ceding more control over its energy infrastructure and over the Black Sea Fleet. Even Belarus, and indirectly Poland and Lithuania, suffered in 2004 from politically motivated supply reductions.

Why has the European Union, and particularly the large gas importers like Germany, the Netherlands and France, ignored the lack of transparency and competition in Russia's energy sector? The Russian pipeline monopolies of Gazprom (natural gas) and Transneft (oil) have been given free rides in terms of the open-market requirements of the World Trade Organization and the EU's own energy charter.

The EU's agreement with Russia on its entry to the WTO gave Moscow's increasingly monopolistic pipeline and production companies' carte blanche. Russia has been able to increase its market power in Europe through the construction of the expensive undersea Baltic Pipeline System.

The West ignored Gazprom's takeover, with Ruhrgas' help, of domestic gas facilities and markets in the Baltic states. It disregarded Transneft's preventing Kazakhstan from supplying oil to Lithuania's Mazheikiu Nafta Refinery through the Russian pipeline system, even though it has the legal right to do so.

Russia has stopped all piped shipments of oil to Latvia for the past two years in an effort to control the port of Ventspils. Now, Moscow is again attempting to keep non-Russian companies from buying Lithuania's Mazheikai Nafta Refinery and the port at Butinge.

Should this use of raw energy power not be a subject for discussion within the European Commission?

Does the West believe that it needs Russian energy supplies more than Russia needs the oil and gas revenue that comes from Western markets? Russia cannot develop its vast energy fields without Western capital or technology, but there has been no inclination by either the EU or the United States to use their considerable leverage to force Russia to play by transparent, competitive rules that guide business in the West, partly because of competition by Western companies for exploration and production rights in Russia.

The Russia-Ukraine "gas war," which recently drew the world's attention to Moscow's energy blackmail, was purportedly resolved to the satisfaction of both sides on Jan. 4, but few people familiar with political and economic relations between Russia and Ukraine believe that this agreement will last very long.

Moscow's requirement that all gas to Ukraine be contracted by the nontransparent company RosUkrEnerg, the direct successor to the even less transparent EuralTransGas, raises questions about the reliability of future European gas supplies that originate in Central Asia.

Russia's political agenda in using gas prices to punish the pro-Western government of President Viktor Yushchenko is clear from statements made by Russian supporters of Gazprom's hard line and from remarks by Russia's few remaining reformers.

Ukraine's politicians, however, deserve some of the blame for the present situation. Kiev has allowed corrupt oligarchs to continue to control gas deliveries from Russia. More damaging in the long run is the Yushchenko government's lack of movement in developing a level playing field for domestic and foreign energy investors.

Ukraine could substantially reduce its dependency on Russia through rapid reforms that permit open tenders for exploration rights and a welcoming atmosphere for legitimate foreign energy investors. Instead, the cozy relationship between Russian and Ukrainian energy interests persists, even after the New Year's Day reduction of gas supplies.

The West has the economic and political leverage to force Russia to become more transparent and commercial in its foreign energy policies. It cannot allow Moscow to threaten the security of Europe, particularly the new democracies of Central Europe, through neglect or unwillingness to face down the new imperial mindset in the Kremlin.

(Keith Smith, a senior associate at the Center for Strategic and International Studies in Washington, was U.S. ambassador to Lithuania from 1997 to 2000.)