



## Using NATO to fight peak gas

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As many of you have probably noticed, there has been an increasingly confrontational relationship between the West and Russia on the issue of gas deliveries to Europe. Over the past year, I have traced this increase in tensions not to Russia's behaviour, but to a clear policy choice made by the UK and the USA to demonize others (continental Europe, for not liberalizing enough, and Russia, for supposedly being an unreliable partner) in the face of their abrupt switch from gas self-sufficiency (counting Canada in the case of the US) to gas importer.

The belligerent rhetoric gained more volume in recent weeks with NATO, the military organisation, coming into the game, first to analyse the "threat", but now as well to offer ways to solve it. And over the holidays, a particularly aggressive article signed by Senator Lugar (outgoing chairman of the powerful Senate Foreign Relations Committee) was printed in the [Washington Post](#) and the Wall Street Journal in its editorial pages ([sub. only link](#)).

### The New Threat to Europe

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(...)

And, as Lugar pointed out: "The use of energy as an overt weapon is not a theoretical threat of the future. It is happening now."

This comes as close to saying that we're at war (in a new cold war, anyway) as can be found, and that we should use NATO to fight it - which is quite a significant policy step, I'd say...

Let me take you through the whole article.

*Adapted from the [European Tribune](#)*

This year began with a European energy crisis caused by Russia's cutoff of gas supplies to Ukraine, where a democratic government not to the liking of Vladimir Putin had taken power. Because Russian gas passes through Ukraine on its way to Western Europe, the pressure also dropped in Paris and Vienna and Rome -- and Europeans suddenly realized they were dependent for electricity and warmth on an autocracy that was prepared to use energy as a tool of imperialism.

As my regular readers will know, this is a highly partial description of what happened. I wrote at

length about last year's crisis, so I can only encourage you to go read again the following detailed posts:

[Russian-Ukrainian gas deal - what's behind it?](#) (Jan. 4, 2006)

[Russian gas cuts - why there is no need to worry](#) (Jan. 2, 2006)

[Ukraine vs Russia: Tales of pipelines and dependence](#) (Dec. 30, 2005)

but I'd note the following:

- We all forget that Yuschenko was preferred to Yanukovich for the 2005 election by Putin until the West started supporting Yuschenko very obviously and Putin decided, for some reason, that he thus needed to support Yanukovich. It is the West that made that election a West vs Russia contest, not Russia;
- The gas dispute between Russian and Ukraine had very little to do with the victory of Yuschenko in the Ukrainian election - it was an inside fight between oligarch clans that spilled over in public view. As soon as it did become public, Gazprom reasserted its strategic interests (to be seen as a reliable supplier) and restored supplies **before the conflict was solved**. If that conflict demonstrated anything, it is that Gazprom cares more than anything else about its reputation as a supplier, and was really unhappy to see it trashed by internal conflicts;
- Most importantly, it is not "Europeans" that discovered their gas depended on Russia. France, Italy, Germany and Austria (not to mention the former Soviet satellites) have acutely been aware of that dependency for years, and have all taken steps to mitigate it, via long term contracts negotiated with high level political intervention, and a general policy to diversify of supplies. No, those that discovered the issue were the British and the Americans, who experienced gas shortages last year because of declining domestic production, and, being self-sufficient until then, had not worried at all about the issue. So let's stop to make this a "European" issue, and let's call it what it is: an Anglo-Saxon panic attack.
- as someone who has long been critical of Putin's autocratic tendencies, I'll continue to point out the stunning hypocrisy of those that cheered Putin on when he "restored order" in the early years by fighting the evil oligarchs, but suddenly became "autocratic" when that same fight took on Western-friendly oligarchs like Khodorkhovski.

But anyway, the stage is set: "we" are fighting for our very survival against a ruthless, dictatorial regime.

It looks like the year will end the same way. Georgia and Azerbaijan, two other Russian neighbors that have chosen not to kowtow to Putin, are scrambling to find gas supplies by Jan. 1 to make up for Russian cutbacks or to avoid a huge and predatory price increase. So, oddly, is Belarus, which until now has been a Kremlin client -- but which has resisted a Russian demand that it turn over ownership of a key gas transit pipeline.

I am sure that a lot of people would be surprised to learn that market driven price increases are "predatory". Let's all remember that the issue is that these countries are getting gas at subsidized prices - because Russia chooses to do so in exchange for political advantage. If it feels that it is not getting the political gains it was seeking or expecting, why would it be abnormal to switch back to market conditions? Actually, papers like the WaPo or the WSJ, if they were consistent, should berate Georgia and Azerbaijan for selling out politically to Russia for market-distorting, and fleeting, benefits. Paying the market price for gas sends the proper signal to their consumers and investors, and increasing prices will lead, by market mechanisms, to lower gas demand and a

better allocation of resources. Right? So why argue that these countries should get subsidized gas? From Russia?

Western energy companies that have invested in Russia are meanwhile reeling from a crude campaign of bullying designed to force them to give up majority stakes in oil and gas fields to Kremlin-controlled companies. Shell has already caved, allowing Gazprom to take a 50 percent stake in a huge offshore gas field.

The only country in the world where oil companies have not been "bullied" into more favorable terms for the host country is the USA - that reflects the changed balance of power between oil companies and host countries in each case - and suggests that the US government is the weakest and the least able to face oil companies.

Of course, the word 'bullying' is used not to acknowledge that oil companies are agreeing to terms that still make sense to them under current market conditions and a balance of power which is highly unfavorable to them, considering that they are shut out of most countries that still have promising hydrocarbon reserves and that they are happy to take the terms set by those that do tolerate them.

As has been noted, Shell got a pretty good price for its stake in Sakhalin and have very little to complain about, as they've always stated that bringing Gazprom in would be a good thing, and they were properly compensated for that act.

It would be nice to report that in the intervening months Western governments have taken steps to ensure that Russia, which supplies anywhere between 30 and 100 percent of the gas consumed by European Union countries as well as much of their oil, is not able to use this leverage for political or economic extortion. Sadly, the opposite is true: Though "energy security" has become a favorite topic for discussion at E.U. and transatlantic summits, next to nothing has been done about it.

What blatant manipulation of numbers. Russia supplies anywhere between 30 and 100% of the gas consumed by *countries that import Russian gas*, but many European countries do not actually import gas from Russia, and Russian gas only makes up 19% of EU consumption.

And to say that next to nothing has been done is just as false. The fact is that the war-mongering solutions has not been approved by those countries that actually import Russian gas. Instead, they have focused on extending their contracts with Gazprom, as ENI and GDF recently did - thus extending the solid long term contractual relationship with Gazprom they've already had for decades and which has worked well for both sides so far.

That's partly because solutions aren't easy. Weakening Russia's hold over European energy supplies requires measures that would be costly and difficult, such as building new terminals for importing liquefied natural gas or new pipelines to carry oil and gas from Central Asia and the Caucasus to Europe.

The easiest, and never mentioned, solution, of course, would be to **lower our gas demand** instead of continuing our mindless policies to burn ever more of the stuff. In particular, we could focus on changing our electricity sector policies, which seem to have a single goal in mind: build

more gas-fired power plants. But no, as always the focus is on finding MORE SUPPLIES.

There's a less excusable problem, however: the failure of European Union governments to agree on either a common energy strategy or a policy for responding to Russia's growing aggressiveness. Some politicians, like German Foreign Minister Frank-Walter Steinmeier, propose a new Ostpolitik that would entice Russian cooperation with offers of economic and strategic partnership. Others say the E.U. should refuse to renew an expiring economic pact with Russia unless it stops trying to monopolize European energy supplies.

This is extraordinarily ironic coming from people that relentlessly push market deregulation and monopoly busting within the EU. We should set up a monopsony with respect to Russian gas?? And who would run that body? The European Commission? EU governments? pro rata their gas consumption? Their gas imports? Their Russian gas imports? Utilities? Gas buyers? And would it onsell that gas to EU players on the market? At what price? Who would get the benefit of the presumably lower prices that this body would manage to extract from Russia, taking advantage of its monopsony position? I have yet to see the beginning of any proposal in that respect. Until the practical aspects of this proposal are reconciled with the ongoing market liberalisation that the same people peddle with abandon, I have to call utter and absolute bullshit on them.

Though it has a vital stake, the United States has been mostly missing from the discussion. That's one reason a recent speech by Sen. Richard Lugar (R-Ind.), the outgoing chairman of the Senate Foreign Relations Committee, was intriguing. Lugar has been a pioneer of some of the most farsighted U.S. policies toward the countries of the former Soviet Union, including the Nunn-Lugar program for securing and dismantling nuclear weapons and materials.

I will note here that indeed, the Nunn-Lugar program has been one of the smartest things done with respect to Russia in the past 15 years.

Now he's proposing that the NATO alliance formally adopt "energy security" as one of its central missions. NATO, he told a German Marshall Fund conference alongside the recent NATO summit in Riga, Latvia, is "used to thinking in terms of conventional warfare between nations. But energy could become the weapon of choice for those who possess it.

"A natural gas shutdown to a European country in the middle of winter," he added, "could cause death and economic loss on the scale of a military attack."

This is, again, false and vicious scaremongering. The countries that import most gas, in volume, (France, Germany, Italy) are also those that have the biggest storage facilities, the most diversity of supplies, and the most connections to other countries. The countries that are most dependent on Russian gas, as a percentage of their supplies, are also, for the most part, located on the gas transit routes to Western Europe, and could not be cut off without the rest of Europe being cut off as well. And that would be a pretty stark act by Russia, considering that 100% of its exports go to Europe (not to mention that almost all its oil exports go to the Baltic or Mediterranean Seas and are de facto under the control of European navies), that these exports represent the biggest chunk of its hard currency income and that they have - physically - no alternatives to sell them.

NATO, Lugar said, should resolve to treat "an attack using energy" the same way it would a land attack by conventional military forces -- that is, an attack on one country would compel a response by all. That doesn't mean military action, he said; "rather, it means the alliance must commit itself to preparing for and responding to attempts to use the energy weapon against its fellow members."

Lugar pointed out that NATO used to hold exercises to prepare for the logistical and supply challenge of responding to a Soviet attack. A new exercise, he said, "should focus on how the Alliance would supply a beleaguered member with the energy resources needed to withstand geo-strategic blackmail." This wouldn't be easy, he acknowledged: In fact, "the energy threat is more difficult to prepare for than a ground war in Central Europe." Guarding against an energy cutoff by Russia will mean massive investments in new supply lines and reserve supplies, as well as the means to distribute them in a crisis.

It is ironic that those countries that do have reserves, alternative supply routes and means to distribute them in a crisis are precisely those countries that have been importing gas (not just Russian gas) the longest, and have worried about these issues for a long time - and acted accordingly. But now that suddenly the UK feels itself naked - with its domestic supplies disappearing fast, no storage capacity to speak of, and no long term contracts in place -- it calls for European solidarity - after years of mocking the gas importers for their lack of faith in market solutions.

Again, that same criticism applies to the WaPo and the WSJ. Are they admitting to market failures? Are they saying that there are circumstances where markets do not provide for all demand at the right price? Why else would they need military action - i.e. State intervention? But if they recognize that markets can fail, shouldn't we reconsider the whole deregulation of energy markets? After all, brownouts could also "cause death and economic loss on the scale of a military attack" - and failed deregulation has caused a number of these in recent years. Surely NATO - or at least public - intervention should be useful there as well, no?

That sounds daunting at a time when NATO has its hands full trying to fight a war in Afghanistan. But the energy threat goes to the alliance's historic purpose: defending democratic Europe from attack by the autocratic and belligerent power on its Eastern frontier. And, as Lugar pointed out: "The use of energy as an overt weapon is not a theoretical threat of the future. It is happening now."

Yeah, better to posture, hector and say we're at war with an Evil Empire than actually think about real solutions - you know, those that involve abandoning ideological blinders, a blind trust in "markets", and focusing on things like governments setting long term priorities and imposing regulations or - gasp - spending money to get there.

If energy is a strategic issue, then it requires public intervention and it should not be left to the narrow short term interests of market players. And a note to the Washington Post and the Wall Street Journal: there is more to government than the military.



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