



## Toughness is so manly--and so effective at grabbing gas--just ask Russia

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It's hard to avoid thinking that some people are stupid and that they will never learn, when they keep on proposing the same solutions over and over again, despite obvious failure in previous attempts. Trouble is, these people are still in power - or in positions of influence.

I'm not talking about the neocons on Iraq or Iran, nor about the neolibs on Social Security privatisation, labor market "reform" or trickle down, but it's the same kind of behavior.

No, in this case, I worry ([again](#)) about the growing body of institutional support for "toughness" against Russia on gas matters.

A lot of people have discovered in the past year that Europe's dependence on Russian gas was growing, and have begun to panic. The result has been increasing stridency and hostility against Russia, or *coldwaritis*, as exemplified by the latest opus from the CSIS (Center for Strategic and International Studies, a well known think tank), written by former ambassador to Lithuania [Keith Smith](#).

The full text of his article can be downloaded from [here](#), but I'll focus only on his list of recommendations for the EU. It's scary.

The following would constitute important signs that the EU is adopting a tougher attitude:

1. An EU decision to enforce its competition and antitrust rules in deals between Russian companies such as Gazprom and individual EU governments, in the same way that the Commission acted against the U.S. companies Microsoft and Honeywell.

I would hope that any efforts would be more effective than those against Microsoft, which have gone nowhere (but at least the EC has not given up like the US DoJ), but I'm not sure exactly on what grounds competition and antitrust rules would apply. All European companies are free to buy gas from Gazprom if they want to (and if they can get access to Gazprom gas, something the EC can say little about). The EC already enforces rules on third party clauses (i.e. the ability for Gazprom customers to onsell their gas to others), with [unexpected consequences on European markets...](#) Or does Mr Smith suggest that long term contracts be ditched in favor of spot sales of Russian gas? Or that a single EU buyer negotiate with Gazprom? As I've written before, this would require to respond to a number of questions, such as who would run that body (the European Commission? EU governments? Utilities? Gas buyers?), under what decision making rules (pro rata their gas consumption? Their gas imports? Their Russian gas imports?), and what it would do with that gas and at what price it would sell it.

That proposal makes no sense unless explicated in detail - something these people somehow never get around to do... The tough posture must be enough.

2. Efforts by the EU to prevent member states from reaching deals with Russia that undercut the viability of EU plans to help construct pipelines from Central Asia that bypass Russia.

Again, that suggests to put a number of roadblocks - but on who exactly? Governments? Companies from a given country? And to prevent them from doing what?

That sounds like blatant intervention in markets to pick winners - something that I thought governments were no longer supposed to do.

Especially as I've noted before that gas pipelines from Central Asia that bypass Russia make no economic sense. The arguments I used [about Afghanistan](#) two years ago apply here too - and we actually had a real life demonstration in that point in the 90s when the US government energetically pushed the PSG pipeline from Turkmenistan to Turkey (developed by Shell, Bechtel and Enron) and it lost the market to Gazprom's Blue Stream, a supposedly unfeasible pipeline under the Black Sea which is now in service while PSG went nowhere. Nobody has tried recently, but the outcome would be the same.

Even if the EU were to decide to subsidize the construction of such a pipeline, it would need to reach agreements with all the countries involved, and Russia has more leverage with all of them - because it does not need to pay for an actual pipeline - the link is already there and is free to use. Thus Russia will always be able to offer a better price for gas than Europe will - and earlier.

3. EU action to counter oil disruptions to the Baltic states designed to force these countries into selling their energy facilities to Russian companies.

That sort of makes sense, and the EU should indeed guarantee supplies to its more isolated members. But it should be noted that the Baltic terminals, refineries and pipelines are physically integrated with the Russian network, and there is a industrial logic in seeing these controlled by Russian companies. With the Baltic countries now paying market prices, Russia has no real motivation not to sell them oil or gas.

As an element of background, I'll note that Mr Smith, Ambassador to Lithuania, then was an advisor to Williams, the US oil company, which had bought the main Lithuanian refinery, Majeika, and then got embroiled in a tug-of-war with Lukoil over the supply and the control of the refinery, which it solved by inviting Khodorkhovski's Yukos to [take a stake](#) in the refinery - i.e. turning to Russians to fight off other Russians...

4. EU leadership in building a more secure network of electricity interconnectors between the countries of Western, Central, and Eastern Europe.

Interconnectors are a good thing. The questions are, of course, (i) who pays for them, and (ii) how do you deal with pesky locals who do not want the ugly transmission lines in their backyard (the main reason these lines, which both local governments and utilities want, are blocked most of the time)? Is the EU going to run roughshod over national and/or local permitting procedures? Are

5. An EU effort to marshal the international banks, including the EBRD and the EIB, to take equity positions in the pipeline systems of Ukraine, Bulgaria, Moldova, and Poland. This would help these countries modernize their pipelines, provide a "neutral" party to ward off attempts by nontransparent Russian or national companies to take control of the pipelines, and increase competition in gas and oil transportation.

I am pretty sure that Russia would be quite happy to not have to deal with the problems associated with transit through these countries, and pass on the problem to the EU. Because they would get paid the full value of gas at the Russian border, and the EU would have to deal with the fact that the transit countries still physically control the pipelines, and are unwilling to pay for gas that they can simply take for free along the way. Would the EU accept to subsidize these countries' energy consumption as Russia has been forced to do (in order not to compromise its commitments to Europe)? Or to intervene more vigorously in their domestic affairs? That might get interesting really quickly...

6. EU decisions to promote international financing for the proposed Nabucco natural gas pipeline from the Caspian basin through Turkey to Bulgaria, Romania, Hungary, and Austria, which would increase energy security in Central and Eastern Europe, and to push hard with Kazakhstan and Ukraine for the construction of the Odessa-Brody oil pipeline system.

Nabucco is being prepared, and is likely to be financed by the private sector. Why should it be subsidised? Again, picking winners and losers, or supporting corporate welfare?

As to the Odessa-Brody oil pipeline, it is actually already in service - but the Ukrainians have found it more profitable to use it in the other direction, for transport of Russian crude to the Black Sea, rather than for transit of crude in the Black Sea (presumably from Azerbaijan via Georgia, or from Russia itself) to central and Northern Europe... Should they be paid to change the flow? By whom?

Efforts by Central and Eastern European countries to improve their security by increasing domestic energy storage, boosting indigenous supplies of gas and oil, and creating a welcoming and transparent environment for foreign investors.

Indigenous supplies of gas and oil is so ridiculous that I won't even comment on it (if the resources were there, I'm sure they would be exploited). Storage makes a lot of sense, and indeed Central European countries have been building up strategic oil reserves as per the EIA recommendations. Gas storage is harder, as it requires the right kind of facilities, which cannot be built just anywhere. Central Europe has some, but they are geared up for distribution of Russian gas; in any case, gas storage is mostly needed to deal with the seasonality of demand (which is 3 times higher in winter than in summer) which requires large storage buildup during the warm months.

And the liturgic reference to the "welcoming environment for investors" will be translated as "give US energy companies tax breaks to invest"...

8. EU insistence that the opening of European downstream assets to Russian ownership is contingent on Moscow's implementation of the Energy Charter Treaty and, particularly, the Transit Protocol.

That's already been made clear (against all market precepts which state that the nationality of the owner of assets is irrelevant) and is pointless as Russia will not ratify the Energy Charter which brings it no advantage whatsoever. Why would Russia give up control of its pipelines to Western oil companies with no compensation?

Thus, we have the same mixture of bluster and wishful thinking as always, an absolute incoherence with the otherwise pushed for liberalisation drive, and an insistence to paint Russia as the evil empire trying to withhold (our) energy from us.

And we have absolutely no mention of what would actually make sense and be within our control: stop building new gas-fired plants (something structurally encouraged by the liberalisation of the markets, which favors the kinds of plants which are easiest to finance by the private sector, i.e. gas- and coal-fired plants), and try to otherwise focus on energy savings.

But no, confrontation is so much more fun, and so much more *manly*.



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