

International Herald Tribune
Get tough with Gazprom
Tuesday, January 9, 2007
European energy security
By Robert R. Amsterdam

The European Commission's Strategic Energy Review, which will be issued on Wednesday, is likely to be the most important statement on energy in the EC's history. To succeed, one of its top priorities must be equal terms of business between the European Union and Russia.

As shown once again this week, when Russia halted delivery of oil to Europe via Belarus, the current situation is dangerously unbalanced.

The Commission must facilitate further integration of Russia's state-owned Gazprom into the EU market through market liberalization and downstream integration. In parallel, it must seek the eventual restructuring of Gazprom, and access to Russian markets for European companies.

Gazprom has evolved into the dominant market maker in gas for Europe. But its actions have made a mockery of EU efforts toward greater collaboration with Russia.

Gazprom deploys three strategies: cooptation — cultivating partnerships with certain countries, political leaders and corporations as levers of its interests; pre-emption — using upstream power and Russian diplomacy to manipulate situations downstream and to scoop up assets, and disaggregation — splitting the EU through bilateral deals.

Gazprom's cooptation of Europe has been achieved mainly through Germany. Partnerships with German energy companies and banks have helped persuade Berlin to collaborate in favor of Gazprom and Russian aims.

Meanwhile, extensive lobbying directly and by proxy is used to persuade European regulators to allow long-term supply contracts in the EU despite their deadening effect on competition.

Pre-emption by Gazprom has been accomplished through a sweep of acquisitions at any economic or political cost. Gazprom has flooded the market in Turkey, withheld gas from Ukraine and oil from Belarus, and offered preferential market access to willing partners like Italy.

Elsewhere, Gazprom engages in pre-emption — like the Caucasus, where the Kremlin has done everything possible to prevent Iran from establishing the infrastructure to allow it to compete as a supplier of gas to Europe. To stop Iran's gas Russia effectively bought the entire energy sector of Armenia.

Gazprom's opacity and market dominance are reinforced by activities coordinated with the Kremlin to impact markets like Spain and Italy by seeking gas deals with rival suppliers, like Algeria. In exchange Russia has offered enticing gifts, such as vast concessions on arms and preferential debt terms.

In other cases, the Kremlin acts punitively, as it did when it cut off oil to Lithuania over its sale of a refinery to a Polish company.

The prime example of disaggregation is the Nord Stream pipeline, which appeals to Germany's interests while angering Warsaw and the three Baltic countries. The undersea pipeline, which connects Russia directly with Germany, serves the political objectives of the Kremlin, undermines the energy security of Germany's eastern neighbors and threatens environmental havoc in the Baltic Sea.

The Commission's Strategic Energy Review must deal with the asymmetry of the EU-Russia energy relationship, which allows Gazprom to use the EU's deficient liberalization policies against European interests.

As long as Gazprom remains opaque, Europe will never know whether its key supplier is spending enough to develop reserves crucial to Europe's future. Indeed, one result of the Kremlin's political battle to win control of Russia's energy sector has been a dramatic reduction in the rate of growth of domestic oil and gas production. That is a problem for Europe.

Brussels must demand transparency, symmetry and the rule of law from Moscow, with the ultimate goal of a revolutionary integration of European and Russian energy markets.

The access Gazprom seeks in Europe is the Commission's trump card. Europe should let Gazprom know that this access is conditional on a reciprocal openness of Russia's energy sector.

The result could be a welcome place in the European energy market for a Russia that is trusted and respected by its international partners.