

Choosing Energy Vassalage

David J. Smith*

“Russia’s invasion of Georgia,” writes the American Ambassador to Sweden, “brought into stark relief... why we need alternative energy: energy security.” Writing in the September 10 edition of *Svenska Dagbladet*, Michael M. Wood continues, “Sweden should also take a hard look at Nord Stream, the proposed natural gas pipeline in the Baltic Sea to bring more natural gas to Germany.” Although Wood appropriately addressed his remarks to Sweden, which must consider whether to allow the pipeline in its waters, Germany swiftly reacted to his article, recommitting to European energy vassalage. “We have made it clear that we support this project for political reasons,” replied Ulrich Wilhelm, German Chancellor Angela Merkel’s spokesman.

Wood recalls the words of the September 1 European Union Summit called to address Russia’s assault on Georgia: “Recent events illustrate the need for Europe to intensify its efforts with regard to the security of energy supplies.”

He points out that “Nord Stream bypasses the Baltic States and Poland, potential consumers, and represents a special arrangement between Germany and Russia. The EU should be speaking with a single voice to counteract the power of Russia’s energy weapon.

“Europe needs to work with the energy producing and transit countries in Central Asia, Azerbaijan, Georgia and Turkey to develop an energy infrastructure outside the Kremlin’s control. Russia’s invasion of Georgia shattered one of Europe’s fastest-growing economies. It was also a significant setback to the Nabucco pipeline project.”

Similarly, Nobuo Tanaka, Executive Director of the International Energy Agency, told a September 8 Prague conference that Europe’s interest should be “to create one single big market and negotiate in one voice.” Moscow, Tanaka added, wants to “divide and rule” energy-dependent Europe. The IEA chief also endorsed the Nabucco Pipeline.

After Moscow’s energy blackmail and cutoffs in 2006 and 2007, the EU began studying the feasibility of an energy stockpile. Any member state cut off by Moscow would be able to draw from that supply. Meanwhile, EU, national government and energy industry officials are approaching countries like Nigeria, Iraq, Algeria, Kazakhstan and Turkmenistan in search of alternative sources of oil and gas.

Of course, gas from Kazakhstan and Turkmenistan would require a trans-Caspian Pipeline to link with the existing Baku-Tbilisi-Erzurum pipeline, possibly augmented by a new parallel pipeline, and the prospective Nabucco Pipeline that would lead from Turkey to Austria. Naturally, Moscow is trying to kibosh the trans-Caspian link as well as Nabucco.

Consequently, Europe needs unity and the courage to use the power that unity would bring.

Forging unity will require putting aside the potential advantages that lure individual companies and countries. For example, Fulvio Conti, Chief Executive Officer of Italy’s ENEL, has been from conference to conference touting his company’s latest deal in Russia. “There are no reasons for the

political situation to impact our projects... I am not concerned and not worried, and do not see anything terrible. Russia is a part of Europe.”

ENEL paid \$4 billion for the Russian company OGK-5, which is building the Sredneursk Power Station near Yekaterinaburg in conjunction with Italy’s other energy giant, ENI, and Gazprom. Last year, ENEL paid over \$800 million for gas fields previously owned by YUKOS. That should send a shudder down Conti’s spine. Instead, he told reporters, Russian Prime Minister Vladimir Putin backs ENEL’s project and “When we work in this country, we feel like Russian citizens.”

With attitudes like that, there will be no European unity.

This is a shame because unity would bring power. Everyone knows that Russia provides 42% of the EU’s gas and 30% of its oil, and individual countries depend on Russia for as much as 80% of their supplies.

What many Europeans miss is that the EU countries are also Russia’s biggest customer, and the economy of the EU is ten times bigger than Russia’s. Europeans have money to build pipelines, tankers, ports and liquid natural gas trains, to pay slightly higher prices for supplies from lands more distant, and to create an effective stockpile. They have the money to empower themselves.

Ironically, Putin understands. On the eve of the European Summit—which for a moment looked like it might punish Russia’s invasion of Georgia—he flew to Siberia to speed up construction of the East Siberian Oil Pipeline. Russia today has no gas or oil pipelines through which to sell its oil and gas in China, Japan and other Pacific nations. The Siberian oil pipeline has been repeatedly delayed and its price has soared to \$26 billion. (The Baku-Tbilisi-Ceyhan pipeline cost about \$4 billion.) Russia and China have agreed to build gas pipelines but are still discussing the details.

And just two days before Putin visited Siberia, Chinese President Hu Jintao visited Turkmenistan, negotiating to buy Turkmen gas that has eluded Gazprom’s grasp. Meanwhile, Chinese officials are seeking energy deals in Africa and even South America. Beijing does not intend to become Russia’s energy vassal. Rather, Putin worries about a “raw material bias”—China may treat Russia as a third world country.

Those are big tears in Russia’s energy muscle, rendering it no stronger than Europe’s economic power—except that Putin uses his muscle.

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