The gas conflict between Russia and Ukraine

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The halting of Russian gas supplies to Ukraine for three days this week brought to a head a long-smoldering conflict between the two successor states of the former Soviet Union.

On January 1, the Russian state company Gazprom stopped gas supplies to Ukraine after the latter refused to pay the price demanded by Gazprom of $230 per thousand cubic metres (tcm) of gas. Up until now, Ukraine had received Russian gas at the special price of $50 tcm—a little more than one fifth of the world price.

On Wednesday morning, Gazprom agreed to a deal with the Ukrainian gas company Naftogas. In future, Gazprom will sell gas to Ukraine at the world market price of $230 via the third party Rosukrenegro (a subsidiary of Gazprom and an Austrian bank), which will in turn ensure deliveries to Ukraine at $95 tcm. The price difference is to be made up by sales of cheap gas from central Asia undertaken by Rosukenegro.

Last year, Ukraine received a quarter of its gas from Russian sources, with 50 percent coming from Turkmenistan and the rest from its own production facilities. According to the latest deal, however, the proportion of Russian imported oil is to drop from the current level of 23 billion to 17 billion cubic metres.

At the same time, the most important routes for the export of Russian natural gas to central and eastern Europe cross through the Ukraine. The only alternative pipeline runs through Belarus and Poland. A recently agreed pipeline running through the Baltic Sea and connecting Russia directly with Germany will not be completed until 2010.

The Russian-Ukrainian gas conflict briefly affected gas supplies to the countries of the European Union, which receive a total of 66 percent of their imports from Russian gas fields. While western European countries such as Germany possess reserves to cover demand for two to three months, eastern European countries were more directly hit. Poland, for example, which receives 42 percent of its natural gas and 90 percent of its oil from Russia, has only two weeks of reserve supplies.

Behind the scenes, the EU exerted powerful pressure on the Russian and Ukrainian governments to come to an agreement. The intervention of a company with Austrian connections (Austria has just taken over the chair of the EU) indicates that the EU played a substantial role in the latest deal. This is confirmed by new prices agreed for Russian gas that is transported to Europe via the Ukraine. In future, European countries will pay Ukraine $1.60 instead of $1.09 for the gas transported over Ukrainian territory.

During the three days of the dispute, tension escalated between Moscow and Kiev. Gazprom had accused Ukraine of illegally siphoning off large quantities of gas. On January 1 alone, 100 million cubic metres of gas, valued at $25 million, were re-diverted without permission. “We are dealing with an incontestable case of theft,” Alexander Medwedev, the vice-president of Gazprom, told the press. The Ukrainian government rejected this reproach equally vigorously, while threatening to “use Russian gas as a transit charge” under conditions of falling temperatures.

Gazprom announced it would move to obstruct the flow of Ukrainian gas supplies from Turkmenistan pipelines that run across Russian territory. For its part, the Ukrainian media accused the Kremlin of pursuing political motives in the dispute and seeking to back the camp of the loser in last year’s presidential election, Viktor Janukovich, who is due to stand in parliamentary elections set for March. At the same time, the media declared that Russia is intent on driving sectors of Ukrainian industry into bankruptcy in order to be able to take over key industries and the Ukrainian pipeline at favorable prices.

The administration in Ukraine has also raised the possibility of expelling the Russian Black Sea fleet from its base in the Ukrainian port of Sebastopol, a move that would undoubtedly provoke vigorous opposition from Moscow. Any intensification of frictions due to the gas conflict would also have led to a re-ignition of hostilities between the East of Ukraine, which has strong economic links with Russia and a high proportion of Russian immigrants, and the West of Ukraine.

The current contract runs for five years, but it is highly questionable whether it will last that long. The gas conflict is just one symptom of growing economic and political tensions.

To understand the roots of this conflict, it is necessary to go back 15 years. At that time, the presidents of Russia, Ukraine and Belarus decided in Minsk to dissolve the Soviet Union and replace it with a community of independent states. This step was taken by Boris Yeltsin, Leonid Kravchuk and Stanislav Schuchewitsch without any democratic authorisation and without any debate over the economic and political consequences. They acted in the interest of a small ruling layer, which originated largely from the Stalinist bureaucracy, and which then began to enormously enrich itself during the following years through the plundering of Soviet state property.

To denationalise state property and reintegrate the economy into the structure of world capitalism, everything in the way of progressive economic and social achievements that had been established by the Soviet Union was destroyed and smashed. Complex economic relations that—in the case of Russia and Ukraine—existed long before the emergence of the Soviet Union were broken up. The consequences for the population were devastating.

Like the Balkans, where the smashing up of Yugoslavia was accompanied by the deliberate encouragement of ethnic conflicts, the new ruling elites of Russia and Ukraine have resorted to nationalism in order to create a diversion from growing social tensions. As a result, the relations between Russia and Ukraine have deteriorated significantly.

These relations have been extremely tense since the dissolution of the Soviet Union. A controversy over the Russian Black Sea fleet and the national status of the Crimea was only settled in 1997. There have also been repeated disputes over the Russian gas supplies. The gas tap was turned off on a number of occasions in the 1990s because of unpaid bills. At the same time, several Ukrainian oligarchs amassed their gigantic fortunes by illegally tapping the pipelines and selling off large amounts of gas. One of these profiteers was Julia Timoschenko, a leader of Ukraine’s so-called “orange revolution,” who made millions in the gas and oil business.

With substantial support from the US and the European Union, the “orange revolution” finally brought to power a wing of the Ukrainian bourgeoisie that saw its future bound up with a break from Russia’s influence and a turn towards NATO and the European Union.

Russia, meanwhile, has come under increasing pressure from

encirclement by the US and the European Union. In similar fashion to Ukraine, a pro-American government also came to power last year in Georgia. Most of the former Warsaw Pact states had already joined NATO or the European Union, while the US used its war against Afghanistan to establish bases in Central Asia. Following the opening up of the Baku-Ceyhan pipeline, Russia lost its monopoly over energy exports from the Caspian region.

The ruling layer in Russia led by President Putin has sought to counter this encirclement by using the energy resources of the country as a political tool. Alongside Ukraine, three Baltic states and the republics of Moldavia, Georgia, Azerbaijan and Armenia are due to pay higher gas prices from January—although their increase is less drastic than that imposed on Ukraine. Gas supplies were cut off for Moldavia as well as Ukraine.

The only exception is Belarus, which is closely allied to Russia, and which continues to receive supplies at the low price of $48. In return, however, the republic has had to agree to turn over its entire pipeline network to Gazprom.

The Kremlin and Gazprom can demonstrate that the price increase they are demanding is entirely in line with the free market economic policies of the governments affected. The World Trade Organisation (WTO) has made an increase in gas prices to the world market level a condition of membership in the WTO, regarding any special prices as a violation of competitive principles. It favors, however, a gradual increase. “These countries must pay for the going energy market prices in the medium-term, so that their economies become demonstrably more efficient,” remarked WTO director Pascal Lamy.

In view of the limited sources of fossil fuels and the increasing energy demands of rapidly growing industrialised countries such as China and India, the issue of oil and gas reserves is increasingly developing into *the* strategic question in the twenty-first century. Following the US activities in the Gulf and the latest war against Iraq, whose neighboring states, Saudi Arabia, Iran, and the Gulf sheikdoms, control the world’s largest oil reserves, securing access to energy supplies for the coming decades has become a priority for the governments of all industrial nations.

The struggle for energy reserves contains enormous potential for future conflict. Growing demand and the effects of wars such as that conducted in Iraq have sent oil prices soaring, and experts agree that these price levels are unlikely to fall. Future conflicts will not only force prices even higher but will cut off entire national economies from their energy input and threaten their very existence. On a world scale, securing energy supplies today assumes a similar significance to the struggle for access to coal and raw materials in Europe a hundred years ago—a conflict that was instrumental to the outbreak of the First World War.

Above all, Europe—and in particular Germany—is in a vulnerable position. The European states possess only limited domestic energy reserves that, like North Sea oil, are rapidly declining. In 2000, the European OECD countries received somewhat more than a third of their gas supplies from foreign countries. According to the International Energy Agency, this figure is set to rise to nearly two thirds by the year 2030. The situation is even more dramatic with regard to oil. Over the same period, domestic oil production by European OECD countries is predicted to decline from 48 to 15 percent.

The members of the European Union already import 70 percent of their oil and 40 percent of their natural gas. The difference between European OECD and European Union countries stems from the status of Norway, which is one of the world’s largest oil and gas exporters but is not a member of the European Union.

Russia plays an extremely important role for Europe’s future power supply. It has more than a quarter of the world’s natural gas reserves and approximately 6 percent of its oil reserves. In addition, it possesses nearly a quarter of the world’s coal supplies.

The former German government led by Gerhard Schröder had based its energy policy on very strong links with Russia, and Schröder developed a close personal friendship with Putin. Schröder refrained from any criticism of the Kremlin’s war against Chechnya, praised Putin as an “unimpeachable democrat” and remained neutral towards the “orange revolution.”

Shortly before ceding his post as German chancellor, Schröder sealed the contract for building the Baltic Sea pipeline, which was aimed at securing the German gas supply for the next 30 years. Since then, and following an invitation from Putin, Schröder is due to take over as executive chairman of the consortium that will build and operate the pipeline.

Following the increase in gas prices by Gazprom, Schröder’s course was heavily criticised in the German media. It is feared that Russia (possibly under another government) will use the price and the supply of gas to Europe and Germany as a means of exerting pressure, or that Germany will become increasing entangled in the destabilisation of the region.

Under the heading “First the Ukraine, then us?” the weekly *Die Zeit* warned: “Gazprom has not only turned its attentions towards Eastern Europe. With an intelligent, farsighted expansion strategy, the Russian state company is establishing direct access to Western European markets. The long-term goal here is also price control of the Ukrainian kind, when gas reserves are exhausted in the North Sea.”

As a preventative measure, the newspaper recommends increased diversification: “The gas reserves in North Africa and in the Caspian region are within the reach of Europe and—significantly in terms of costs—are nearer than the Siberian gas fields. Liquid gas technology is ripe for introduction into Germany, enabling the country to also import natural gas with ships. It now rests with the new Federal Government to develop for Germany new natural gas sources outside of Russia.”

In similar fashion, the *Frankfurter Allgemeine* argues:“The biggest danger for the power supply of the West in the foreseeable future will not come from the scarceness of resources, but with its concentration in the hands of a handful of states that are often politically very unreliable.”

There is only one way to fend off political pressure from energy suppliers: “Europe must begin to diversify its energy purchases.... The Caspian region, which can be reached overland, or the Gulf States, which have much experience with liquid gas transportation, would be suitable as new suppliers.”

There is, however, one big problem with such advice. The regions specified by *Die Zeit* and *FAZ*—North Africa, the Caspian Sea and the Gulf States—are not only politically unstable, but also highly sought after by numerous competitors—France, England, China and above all the US.

Supply deals for oil and gas are already the subject of violent international conflicts. China, whose energy consumption is rising continuously, recently signed a contract for liquid gas supplies from Iran. The deal extends over a period of 25 years and has a total value of $70-$100 billion. In return, China wants to invest substantial sums in Iranian gas fields. India has also struck a deal with Iran for energy supplies worth more than $40 billion. Both contracts have met considerable opposition from the US, which is endeavoring to isolate Iran and is threatening to impose sanctions.

Increasingly, the struggle for energy is becoming the arena for violent conflicts amongst the older established imperialist powers and with the newer emerging industrial nations.

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