

Russian gas supplies resume, but relations with Georgia and Armenia remain tense

Simon Whelan
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Gas supplies restarted to Armenia and Georgia on January 30, just over a week after attacks on Russian pipelines had cut off the two countries.

On January 22, two explosions occurred on the main branch and a reserve branch of the Mozdok-Tbilisi gas pipeline in the southern Russian border region of North Ossetia. Within hours, an electricity transmission cable in another of Russia's southern border regions, Karachayevo-Cherkessiya, was brought down by an explosion.

No group has come forward to claim responsibility for the attacks, but Russian authorities blamed Islamic terrorists. In turn, Georgian President Mikhail Saakashvili blamed Russia for what he called "gas sabotage" and accused the Kremlin of holding Georgia to ransom. Russian officials replied that the Georgian government had descended into "hysteria and bacchanalia." Just days prior to the pipeline explosions, Saakashvili penned an Op-Ed piece in the *Washington Times* urging an end to the West's reliance on Russian energy and for Caspian oil and gas to replace Russian supplies.

Relations between Georgia and Russia have been tense since the US-backed deposing of Eduard Shevardnadze and the coming to power of Saakashvili in the so-called Rose Revolution of 2003.

By circumnavigating Russian territory, the planned Baku-Tbilisi-Ceyhan oil pipeline has dramatically raised tensions in the south Caucasus and the wider Caspian region. An already fraught situation will be made even worse by the completion of an accompanying gas pipeline charting a similar route across Azerbaijan, Georgia and Turkey, but this time ending in Erzurum.

By pulling the Azerbaijani government closer to Washington, the pipeline seemed to push the Armenian government further into the orbit of Russia and Iran. Armenia, currently under the leadership of Robert Kocharian's administration, has been a close ally of the Russian government since capitalist restoration in the former Soviet Union. But the proposed doubling of oil prices and blowing up of supply lines delivering Russian gas to Armenia have led some regional commentators to speculate that the government in Yerevan might now also seek new international relations with Western states.

Militarily, Armenia remains tied to Russia, with troops moving from bases being closed down in neighbouring Georgia now stationed there. But Yerevan is also a major recipient of funds from Washington.

The Bush administration has increased military and economic aid to countries in the greater Caspian region, including Armenia, Azerbaijan and Georgia during the fiscal years 2002-2004. Topping \$1.5 billion, this represents a 50 percent increase over the preceding three-year period. Visits by senior officials to leaders in the region have also increased under the banner of the "war on terror," but oil interests and the security of the Baku-Tbilisi-Ceyhan pipeline are of

paramount importance to Washington.

The ongoing energy crisis brought Georgia's already ramshackle economy to a virtual standstill. Almost completely reliant upon Russia for its gas supplies, the Georgian government was reduced to distributing kerosene and firewood to its long-suffering population. The disruption in supply brought regular blackouts and lapses in heating, together with power cuts to hospitals and other vital services. Some remote rural regions received no energy supplies whatsoever during the crisis.

The Caucasus region is currently experiencing a record cold snap, with temperatures plummeting to minus 7 degrees centigrade (19 degrees Fahrenheit), the worst since the mid-1980s.

The Saakashvili regime has sought to divert discontent along nationalistic avenues, with the president appearing on national television to proclaim that "Government officials must work almost like in wartime. We must show our adversaries we are a very strong nation."

Georgia is financially insolvent, and Saakashvili's administration has used the crisis as a distraction from its failure during more than two years in office to solve the country's longstanding economic and energy problems.

Amidst the war of words between Moscow and Tbilisi, Georgian authorities cut gas supplies to the Russian embassy in the Georgian capital. The Russian foreign ministry responded by shutting off gas supplies to the Georgian embassy in Moscow. Georgian authorities also briefly banned Russian military aircraft from Georgian airspace.

During the crisis, hundreds of Georgian protesters gathered outside a Russian army command in Tbilisi, carrying banners depicting Russian President Vladimir Putin with a Hitler-style moustache as "GasPutin." The protests were organised by the Saakashvili administration, right down to the banners written in English for an international media audience.

Saakashvili has also instigated moves to pipe Iranian gas to Georgia via Azerbaijani pipelines. In late January, the Georgian government entered into a deal with Tehran to purchase natural gas. Officials in Tbilisi declined to reveal the price for the supply or whether Azerbaijan would receive transit fees. The 2 million cubic meters per day are expected to supply approximately half of Georgia's requirements.

While Azerbaijan also assisted Georgia with extra gas supplies during the crisis, its ability to do so over the medium term is limited until the Baku-Tbilisi-Ceyhan gas pipeline opens some time next year.

The new pipeline will deliver gas from Shah Deniz, Azerbaijan's major gas find. While Shah Deniz has an estimated explorable yield of some 675 bcm (billion cubic meters), most of it will not be accessible

until 2033. In the meantime, Georgia will receive 300 mcm (million cubic meters) annually in transit fees, but beyond this amount analysts question Georgia's ability to pay for further supplies.

On the very day that the explosions severed gas pipelines connecting Russia with Armenia and Georgia, Armenia's president Kocharian travelled to Moscow to discuss new energy arrangements between the two states.

Also on the table for discussion was the two countries' military alliance.

Prior to the explosions, the actions of GazProm, Russia's state-owned gas supplier, had thrown a shadow over the future of the alliance by announcing plans to virtually double gas prices from US\$56 per 1,000 cubic meters to US\$110. GazProm suggested Armenia might be spared the increases if it agreed to preconditions imposed by the Kremlin. Amongst others, these conditions are believed to involve granting Russia a stake in the Iran-Armenia gas pipeline.

Speaking on *Kentron* TV, Armenian Prime Minister Andranik Margarian responded to the planned price increases by questioning the nature of the "strategic partnership" between the two states. Talk of a "partnership" is somewhat misleading. The south Caucasus state is effectively bankrupt, with a population estimated at between only two and two-and-a-half million.

The Armenian government was especially vexed about GazProm's demands, coming as they did after Armenia's 2006 state budget has already been set last December. Many had hoped that the close relationship between Yerevan and Moscow would save Armenia from the brunt of increased charges. All of Armenia's gas supply comes from its northern neighbour, and 70 percent of its energy network infrastructure is owned by Russia.

After their meeting, neither Kocharian nor Putin mentioned the price hike in his official statement. Prices are set below the market level until April 2006, but negotiations are ongoing. Armenian officials remain optimistic about their ability to wrest increases less than those imposed on Georgia and Azerbaijan. A final agreement is expected sometime this month.

Questions are also being raised in Armenia concerning Russian military bases within its borders. Situated 75 miles from the capital Yerevan, the military base at Gyumri is the destination of Russian equipment currently being shifted from within neighbouring Georgia at the insistence of the Saakashvili government. Many politicians have stated that Russia should begin to pay some rent on the facility, or even be allowed to station troops on Armenian soil.

Hitherto, public attitudes towards Russia in Armenia have been favourable. Many Armenians speak Russian, and most families rely on remittances sent back by family members living and working within Russia.

However, according to a poll by the Yelk Social Reforms Center, at least 75 percent of 1,000 Armenian respondents in five different cities would view Russia negatively if GazProm proceeds to raise its gas charges. A larger figure, 80 percent, did not believe that Russia would ultimately levy such charges.

At his recent annual press conference, Putin denounced the anti-Russian policies pursued by the Saakashvili administration. He threatened that the many Georgians employed in Russia and those depending upon their remittances in Georgia would suffer from any further action by the Saakashvili administration.

Putin ruled out running GazProm when he retires from politics, but Gazprom is playing an increasingly central role in the Kremlin's

attempts to utilise energy supplies to wield influence upon former Soviet republics and the wider world.

Gazprom chairman and close adviser to Putin, Alexander Medvedev, recently told the BBC of its aspirations to become one of the world's largest energy companies. It has recently announced plans to bid for British Gas's parent group, Centrica. Alexander Shkuta, deputy chairman of GazProm's export business Gazexport, has said that a takeover of Centrica was currently at the stage of being "analysed and investigated." Share prices jumped 9 percent on reports of GazProm's interest.

Representatives from GazProm told the *Guardian* newspaper that they wished to deliver up to 20 percent of Britain's wholesale gas supplies by the year 2015. The ailing Scottish Power was also mentioned as a possible purchase.

The Kremlin's energy war against Georgia, together with planned international gas supply takeovers, are part of a concerted attempt by the Putin regime to enable Russia to punch above its economic weight on the world stage. Holding enormous oil and gas reserves, the Kremlin has identified energy as its trump card in geopolitics.

The other plank of Russian policy is its military might. The Kremlin's "energy war" is complemented by a more aggressive attitude towards Georgia's breakaway provinces. Also at his annual press conference, Putin insisted on "universal principles" for settling unresolved conflicts in the secessionist Georgian provinces of Abkhazia and South Ossetia. Referring to Kosovo, Putin announced that if the component part of the former Yugoslavia was to be granted independence from the Serbia and Montenegro federation, then Russia would possibly withdraw its support for the territorial integrity of Georgia. Putin was quoted by *voanews.com* as saying, "I do not want to say Russia would immediately recognise Abkhazia and South Ossetia as independent states, but such precedent does exist."

Days later, Saakashvili's office responded by announcing Georgia's intention to withdraw from a group of former Soviet republics seeking to expand military ties with Russia. His government would instead set a goal of securing an invitation to join NATO by 2008.

It is a measure of the acute tensions that have developed that fights broke out between Russian and Georgian troops in South Ossetia on February 1 following a minor traffic infraction that involved several hundred people.



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