Europe’s energy crisis sharpens antagonisms with Russia

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The year began with an energy crisis in Europe. On January 1, the national Russian energy company Gazprom temporarily cut off gas supplies to Ukraine in order to enforce a five-fold price increase.

The resulting supply shortages throughout the continent served to underline Europe’s dependence upon Russian gas supplies, which flow through Ukraine.

Russian exports of natural gas currently account for a quarter of the entire western European market. Russia holds the world’s largest sources of gas reserves and is the largest producer and exporter. Gazprom retains a monopoly over Russian gas exports through its control of the Russian integrated pipeline network.

The European Union is largely dependent upon external sources for its energy supplies, particularly Russia, but also Norway and Algeria. That dependency is set to accelerate substantially in the coming period.

In a 25-member EU, energy demand is expected to grow by 15 percent between now and 2030. Natural gas demand is expected to increase by 70 percent, and electricity consumption is expected to increase by 45 percent.

EU natural gas production represents around 12 percent of world production and is declining, forecast to fall from 238 billion cubic metres in the year 2000 to 98 billion cubic metres in 2030. EU oil production currently represents less than 5 percent of the world total, and is relatively costly to extract.

The EU is currently dependent upon external sources for approximately 50 percent of its energy needs. This is anticipated to rise to 70 percent by 2030.

The European bourgeoisie is acutely aware of the increase in global competition for energy supplies, particularly coal, natural gas and oil—hence the publication of its Green Paper on March 8 on the issue. The language used in the paper, however, reflects its growing sense of alarm:

“Global demand for energy is increasing. World energy demand—and CO_2 emissions—is expected to rise by some 60 percent by 2030. Global oil consumption has increased by 20 percent since 1994, and global oil demand is expected to grow by 1.6 percent per year.

“This landscape requires a common European response... Recent events have underlined that this challenge must be met. An approach based solely on 25 individual energy policies is not enough. The EU has the tools to help. It is the world’s second largest energy market, with over 450 million consumers. Acting together, it has the weight to protect and assert its interests.”

Claude Mandil, executive director of the *International Energy Agency*, gave voice to the concerns of the European bourgeoisie over global competition for energy supplies In a March 22 article in the *Financial Times* he stated:

“Natural gas accounts for an increasing portion of the world’s energy consumption and imports are expected to rise significantly in most industrialised nations, notably western European countries but increasingly the US and Japan While global natural gas supplies are large, they are concentrated in relatively few countries, particularly Russia, Iran and Qatar...Gas currently provides about 21 percent of global energy supply and is expected to rise to 24 percent by 2030, overtaking coal as the world’s second largest energy source...

“In North America, demand also increases steadily and imports, which are currently small, will reach 14 percent by 2030. In the Asia-Pacific region, the import reliance of Japan and Korea will remain very high. In addition, China and India will emerge as big gas importers.”

Russia’s crucial position in relation to the European energy market was underscored during a state visit by Russian President Vladimir Putin to Beijing. On March 21, two days before the EU summit that was meant to draw up a common policy on energy, Russia’s Gazprom and CNPC, China’s biggest and state-run energy firm, signed a deal to build two natural gas pipelines to China. The pipelines are expected to cost $10 billion, supply 60-80 billion cubic metres of gas annually, and to come online by 2011. In addition, CNPC will also provide Transneft, the Russian oil transport company, with $400 million to finance a feasibility study for an oil pipeline between Russia and China, and to cover construction costs on Russian soil, according to the *Moscow Times*.

The *Financial Times* remarked that "analysts said [Russia] appeared to be playing Europe and China off against each other."

Although Sergei Kupriyanov, spokesman for Gazprom, stated that the company would have enough gas for Europe, Russia and China, the FT continued: "However, the future increases in gas supplies to Europe—in response to its growing demand—will be subject to arbitrage between China and European countries."

The March 23-24 EU summit's proposed "Energy Policy for Europe" focuses on an attempt to lessen Russia's domination over European energy supplies. It calls for the opening up of Russia's gas pipeline monopoly to European investment and stresses the desirability of increased "diversification" of European supplies toward other, non-Russian sources. The summit also insisted upon the further internal liberalisation of the European energy market.

Russia has been pressed upon in recent weeks to ratify the European Commission's Energy Charter Treaty, which, according to the *Financial Times*, "would stop Russia from simply suspending supplies to another country" and "would also require Russia to open its export gas pipelines to independent producers and third countries, such as Kazakhstan."

The EPE calls for "revitalised" dialogue with Russia "in support of EU energy objectives" and allowing "non discriminatory access to third party pipelines in Russia," reiterating that "decisive efforts" should be made to "secure Russia's ratification of the Energy Charter Treaty."

Russia has rebuffed the request.

The EU summit also proposed the need for "intensified diversification" into energy sources" and for the opening of "New gas supply routes... in particular from the Caspian region and north Africa." But this desire to secure Europe's energy interests—whether in North Africa, the Caspian region, or the Middle East—does not occur in a geopolitical or military vacuum.

In the first place it only exacerbates tensions with other major powers, such as the US and China. Multibillion-dollar European and British investment in oil and gas and plans for liquefied natural gas (LNG) production in Iran have been recently suspended amid fears of United Nations sanctions, according to the *Financial Times*.

Moreover, Russia is not standing idly by while Europe seeks access to other suppliers. A recent state visit to Algeria by President Vladimir Putin saw Russia conclude a $7.5 billion arms deal with the North African country. M.K. Bhadrakumar, in an article for the *Asia Times* headlined "Reheating the Cold War," notes that the arms deal involves "deep collaboration between the two countries in the energy sector... Russian companies have been given monopoly rights for oil production in the Sahara desert; Russia's Gazprom will participate in the development and production of Algeria's gas sector; and Algeria will share with Russia its sophisticated Western technologies in gas liquefaction." Of crucial significance is that "Algeria is Europe's only viable alternative source of gas at present, ranking fourth in the world as a gas-exporting country."

Algeria has the eighth largest proven natural gas reserves in the world. It accounted for one-fifth of natural gas imports to the EU in 2000, second only to Russia. It is also the second largest exporter of LNG behind Indonesia, with approximately 17 percent of the world's total. In 2003, Algeria's exports of LNG to the US constituted some 11 percent of total US LNG imports.

The desire to "develop a common voice" for the EU in securing its energy interests abroad is also bound up with increasing pressure on European industry to remain globally competitive against its rivals. The Green Paper makes this connection explicit, stating: "One of the most important objectives of the internal energy market is to promote the competitiveness of EU industry... Secure availability of energy at affordable prices is crucial. Integrated and competitive electricity and gas markets with the minimum of disruption are essential."

The concern is that if Europe does not determine its energy policy as one big bloc, then it is more open to prices being determined by external suppliers. Fulvio Conti, the chief executive of Italy's largest power company Enel, told the *Financial Times* that Europe needs an open, fully integrated energy market, driven by strong European companies, because there are "big guys coming in from outside Europe," such as Russia's Gazprom, which is looking to expand into the distribution market.

This would entail the coordinated development of a single electricity and gas grid across the EU, rather than the irrational collection of national energy grids and systems now in place. But the EU is wracked by internal contradictions and national tensions that are exacerbating protectionist sentiment rather than encouraging cooperation, forcing the Green Paper to recognise that whereas "it is essential to act in an integrated way...[e]ach Member State will make choices based on its own national preferences."