

Gazprom threat increases tensions in Europe

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Threats by the Russian state-controlled energy giant Gazprom to use its gas exports as a form of political pressure have led to violent reactions in Europe and Germany.

On April 18, Gazprom head Alexei Miller, who is a close friend of Russian President Vladimir Putin, met with the ambassadors of the 25 European Union states and warned them against limiting “Gazprom activities on the European market.” He was referring to attempts by the British government to prevent Gazprom from taking over the energy supply company Centrica. Otherwise, Miller threatened, Gazprom would increase its supplies to other sales markets such as China and the US.

Although specialists agree that Gazprom could only alter its gas supplies on a long-term basis, if at all, the reaction by some media outlets and politicians verged on hysteria.

At present, approximately 90 percent of Russian gas and oil exports are piped to Europe. They represent the most important source of revenue for the Russian government, which is heavily dependent on such income. Over the past 30 years, a broad network of large pipelines has been developed that connects the gas fields in western Siberia with Europe. This network is still being expanded.

On the other hand, there is no large-scale pipeline between western Siberia and the Far East. Its construction over a distance of several thousand kilometres would take years and would devour billions in costs. Nevertheless it would probably be profitable based on the trend of rising energy prices. A more effective step, however, would be to exploit the enormous gas fields in eastern Siberia that lie close to the Chinese border.

Gazprom and the Russian government would be working against their own current interests if they cut gas supplies to Europe. According to forecasts, these supplies are set to rise from the current annual level of 200 billion cubic metres to 500 billion by the year 2030. According to estimates, China, which presently receives 10 billion cubic metres of natural gas from Russia, is expected to increase its demand to just 50 billion cubic metres.

Nevertheless, some commentators reacted as if Gazprom were about to turn off the taps to Europe and spoke of “brazen extortion.” The German European parliament deputy, Elmar Brok (Christian Democratic Union—CDU), told the newspaper *Die Welt*, “What we are experiencing here is the announcement of a cold war with new methods.”

Others tried to play down the affair. German Finance Minister Peer Steinbrück (Social Democratic Party—SPD) stated in *Deutschlandfunk* that he had no doubts about the reliability of Russia as an energy supplier. This assessment was based on his personal discussions with the Russian finance minister and President Putin.

The different reactions to the Gazprom threat reflected the divisions in the European Union over foreign policy issues. In Germany such divisions go right through the middle of the political elite.

Currently, the European Union receives a quarter of its gas imports from Russia, while Germany receives more than a third of its requirements. Many politicians regard this dependence as a political danger that will intensify if Gazprom buys up European power suppliers and thereby not only supplies gas to Europe but also increasingly controls the European infrastructure for its distribution.

Following a recent cooling of relations between Washington and Moscow, those governments and parties that traditionally orient themselves towards the US have been warning that excessive dependence on energy could be exploited by Russia to extort Europe.

The CDU deputy Elmar Brok explicitly demanded in *Die Welt* that the topic of power supply should be looked at “more intensively from the standpoint of political security aspects.” The Russian energy company, he argued, was pursuing a strategy of not only becoming the largest energy supplier to the European Union, but also controlling the forms of distribution in individual states—thereby ensuring that “without Gazprom nothing will function.” The European Union must take decisive steps to prevent such a situation, he concluded.

The International Energy Agency (IEA) has also warned

Europe against relying too heavily on gas supplies from Russia. The IEA chief economist Fatih Birol told *Financial Times Deutschland*, “Europe must change its energy policy in order to avoid a dangerous dependence on Russian natural gas.” The latest comments from Moscow are “an alarm signal and should open the eyes of European politicians,” Birol said.

There is a certain irony in the fact that Gazprom is now accused of doing precisely that which Western companies have always demanded from the Russian government—i.e., making use of unlimited access to the markets and investment possibilities of its trading partners.

Other representatives from politics and business see a close alliance with Russia and Gazprom as the basis for future energy security—and for substantial profits.

One exponent of this policy is the former German Chancellor Gerhard Schröder, who maintained a demonstrative friendship with Russian President Vladimir Putin during the last years of his term of office. While professional diplomats in the German foreign ministry looked skeptically at Schröder’s course, he cooperated closely with Germany’s major energy companies, which have been heavily involved in Russia going back to the 1970s.

The largest German gas importer, E.ON Ruhrgas, has a 6.5 percent stake in Gazprom and, together with the BASF subsidiary Wintershall, is involved in the planned Gazprom-sponsored Baltic Sea pipeline, which from 2010 will relay Russian natural gas directly to Germany.

In addition, E.ON Ruhrgas is negotiating to participate in the Siberian gas field Juschno Russkoje. According to the German *Handelsblatt*, a deal is about to be signed later this week. In return, E.ON has offered Gazprom a stake in its extensive operations in Hungary, the Czech Republic, Bulgaria and Romania. Bearing in mind that these are all countries with governments that have sought to distance themselves from Russia, this move is hardly likely to be greeted with enthusiasm.

Another German energy giant, RWE, is also involved with Gazprom. According to the *Berliner Zeitung*, negotiations are taking place for joint projects over gas production, pipelines and the building of new power stations in Germany. The negotiations are taking place at the highest level, and RWE boss Harry Roels has acknowledged he has held direct talks with Gazprom head Miller.

Alongside Schröder, other high-ranking members of his cabinet also have had close relations with the major German energy companies and have taken up highly

lucrative posts.

Schröder is currently the chairman of the executive board of the Baltic Sea pipeline consortium. Werner Müller, who was recruited by Schröder in 1998 from the executive committee of the E.ON predecessor company Veba to be his government’s economic minister, took over in 2003 as the head of Ruhr coal AG after resigning his government post. After the SPD’s defeat at the polls in 2005, Müller’s successor, Wolfgang Clement, switched to a top post in a major subsidiary of RWE.

The present German chancellor, Angela Merkel (CDU), faces a dilemma with regard to the Gazprom controversy. On Thursday, she is due to meet the Russian president in the Siberian city of Tomsk, where their agenda includes the signing of an agreement over participation by E.ON in the Juschno Russkoje gas field.

Merkel has vaguely articulated her desire for greater distance from Moscow but in practice has continued the policy of her predecessor. Her cabinet includes two staunch allies of Schröder—Foreign Minister Frank-Walter Steinmeier and Finance Minister Peer Steinbrück (both SPD). Steinbrück is a former prime minister of North-Rhine Westphalia and maintains his own close links to the big energy companies in the region.

If Merkel lines up with those in the CDU who demand a clear dissociation from Russia, she risks a crisis in her grand coalition government and discord with Germany’s powerful energy companies. If she ignores the conflict with Gazprom, then this will exacerbate German-US tensions and antagonise those European governments seeking a more confrontational course with Moscow. At the moment, she has left it to her government spokesman Ulrich William to attempt to appease the conflicting camps. He diplomatically declared that threats were not helpful and did nothing to further the development of good energy relations.



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