

# US uses gas deliveries to pressure Russia

**Clara Weiss****30 May 2016**

While NATO is encircling Russia militarily, the energy market is increasingly being used to exert pressure on Russia for geostrategic aims. Recently, the US undertook two significant steps in this direction. With the beginning of liquid gas (LNG) exports to Europe, the United States has stepped up a price war against the Russian gas monopolist Gazprom. At the same time, the US government is openly intervening to prevent the extension of the German-Russian gas pipeline Nord Stream.

In late April, the first LNG units from the US were delivered to the Portuguese port of Sines. The delivery was meant not least as a symbolic move. The EU is currently importing on average about one third of its gas from Russia, but in several member states the percentage is significantly higher.

As of 2013, Finland, Poland, Slovakia, the Czech Republic and Hungary were importing well over 80 percent of their gas from Russia, and Austria and Greece over 60 percent. Germany imports about a fifth of its gas from Russia, but in quantity it is the largest importer. Overall, 90 percent of EU gas imports are covered with natural gas.

The American company Cheniere, which is delivering the LNG, has struck long-term contracts with several European companies, among them Galp (Portugal), the Dutch-British Royal Dutch Shell and the Spanish Gas Natural. It has not been made public exactly how much gas these companies will buy.

The LNG deliveries serve to put pressure on the European gas price and thus pressure the Russian state company Gazprom. As one analyst from the French bank Société Générale explained to the *Wall Street Journal*, the deliveries signify "the start of the price war between US LNG and pipeline gas." In February, a Gazprom representative already announced that the company would lower production costs in the case of American LNG deliveries to Europe.

Over the past few years, Russia's position on the world market as a major supplier of energy has been already significantly weakened. Just a few years ago, the United States was the world's largest importer of gas. However, due to the development of fracking technology, the United States could start producing shale gas and oil on a mass

scale. In 2009, the US thus became the world's largest gas producer, overtaking Russia. The US is now importing less than 5 percent of its gas consumption.

Under these conditions, a bitter price competition has emerged between Europe's two largest gas suppliers, Russia's Gazprom and Norwegian Statoil. The United States has now entered that competition. In order to maintain its market share, Gazprom has been forced to dramatically lower its gas prices in recent years.

In March 2016, the average price for Russian gas in Europe was only \$147.2 per 1,000 cubic meters, 56 percent less than in March 2015. According to the Moscow Higher School of Economics, Gazprom was forced to renegotiate contracts with 30 of its European clients 65 times in the past few years.

A 2014 study by the Center on Global Energy Policy at the Columbia University in New York makes clear that the US is pursuing political goals with its LNG deliveries. It noted: "The US shale gas boom has already helped European consumers and hurt Russian producers by expanding global gas supply and freeing up liquefied natural gas (LNG) shipments previously planned for the US market. This has strengthened Europe's bargaining position, forcing contract renegotiations and lowering gas prices. US LNG exports will have a similar effect."

The study stated that those deliveries were "unlikely to be significant enough to prompt a change in Moscow's foreign policy, particularly in the next few years." Nevertheless, the study calculated that the economic impact on Russia would be significant. Deliveries of 9 billion cubic meters per year would result in a lowering of Russian annual gas revenues by \$24 billion, or 27 percent. If deliveries reach 18 billion cubic meters, the losses would amount to \$33 billion, or 38 percent of annual gas revenues. This would be equivalent to 1.1 percent of Russian gross domestic product (GDP).

The strategists of US imperialism have made out the energy sector as the Achilles heel of the Russian economy. Thanks to rapidly rising oil and gas prices, Russian GDP grew by more than five times between 2000 and 2008, despite a stagnation in the manufacturing sector. The collapse of oil prices in 2008 and the strong dependence of

the Russian budget on revenues from energy exports led to a dramatic decline of Russian GDP. This is why the economic sanctions and the energy policy of the United States since the Ukraine crisis are primarily directed at Russia's energy sector.

A central component of this policy is to lower the Russian share of the European energy market. The US is therefore supporting pipeline projects that are supposed to deliver gas from Central Asia and the Caspian Sea to Europe by circumventing Russia. Among them are the Trans Anatolian Pipeline (TANAP) and the Trans Adriatic Pipeline (TAP) that will transport gas from Azerbaijan over Georgia and Turkey to Greece, Albania and Southern Italy.

Ukraine occupies a key role in this strategy. Prior to the coup in Kiev in February 2014, Ukraine imported 90 percent of its gas from Russia, and about half of Russia's gas deliveries to Europe were transported through the country. Now, the situation has changed radically.

Despite massive financial problems and extreme poverty, the Ukrainian government has spent hundreds of millions of euros to transport gas from Europe, instead of Russia, and thus lower its dependence upon the latter. The International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD) supported this policy by extending large credits to the Kiev government.

In this way, by 2015 Ukraine had doubled its gas imports from Europe to 10.3 billion cubic meters, according to Natural Gas Europe. At the same time, the imports directly from Russia were drastically reduced by almost two thirds, to just 6.1 billion cubic meters. Since the winter of 2015/16 Ukraine has not been importing gas from Russia at all. Gazprom has thus lost one of its most important sales markets.

With this energy war against Russia the US and the EU are pursuing two aims: First, its goal is to help force the Kremlin to change its foreign policy and open up its energy sector for Western companies and investors. Second, it is aimed at preparing the grounds for a war against Russia in Europe on an economic level.

This is necessary because precisely those Eastern European NATO-member states that are pushing for a military confrontation with Russia are also the most reliant upon Russian gas deliveries. The United States and sections of the European bourgeoisie regard this as a serious obstacle to consistently pro-Western policies of these countries (for example Hungary) and as a weak spot in case of war. For instance, a sudden stop of Russian energy supplies would hit the economy of the Baltic States hard.

In December 2015, a study by the US Army College warned about the implications of the Ukraine crisis for European energy security and recommended the US army

prepare the military protection of central energy infrastructure in Europe, including pipelines and underground gas storage facilities.

The sharp conflicts over the expansion of the German-Russian gas pipeline Nord Stream must be seen within this context. The US and several Eastern European countries, above all Poland and the Baltic states, fear that the pipeline could become the basis for a German-Russian axis, first in economic and then foreign policy. If built, Nord Stream 2 would significantly lower the gas transit via Slovakia, Poland and Ukraine. Meanwhile, Germany could further strengthen its position as a central energy hub in Europe.

In early May, the US government publicly spoke out against the pipeline. During an US-EU energy conference, Secretary of State John Kerry said that the Nord Stream 2 would have "very negative implications" for Eastern Europe. Amos Hochstein, the US special envoy and coordinator for foreign policy issues, stated that the US was "deeply concerned" about the pipeline.

By contrast, the German government argues that Nord Stream 2 is nothing but a "commercial project" and therefore a matter of concern only for the companies involved. These include, alongside Gazprom, the German companies Wintershall and E.On, as well as the Austrian OMV and the French Engie.

The German government's position is opposed not only in Washington, but by much of the EU as well. Unlike the German government, the EU commission in Brussels regards the project as a threat to European energy security and gas supplies to Eastern and Central Europe. (See "European Union pushes for energy independence from Russia")

The countries of the Visegrad Group (Poland, Ukraine, Slovakia and the Czech Republic) have demanded a legal review of the pipeline. Italy is also a strong opponent of the project. In the German bourgeoisie there is growing opposition. Thus, the head of the conservative faction within the EU parliament, Manfred Weber (CDU), sharply criticized the project in a letter to EU energy commissar Miguel Arias Cañete, while the German economic minister, Sigmar Gabriel, argued that it would undermine the energy and security goals of the EU and strengthen the position of Gazprom.



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