ENERGY PROJECTS AND ENERGY POLICY

ENERGY SECURITY IN THE INTERRELATIONS AMONG THE EU, RF, UKRAINE, AND CENTRAL ASIA

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In the last few years, energy transit and long-term energy supply issues have come to the fore on the international scene. The reasons are obvious: Europe and North America are consuming increasingly larger amounts of energy, while the prospect of oil, natural gas and, in the more distant future, coal (non-renewable energy sources) shortages looms all the more ominously.

Everything related to international security (military security in particular) is highly structuralized within the system of international relations. However, Europe's energy security, which is currently being discussed, has demonstrated a classic example of the inability of the state and corporate egotism to come to terms with each other in order to balance their highly varied interests.

Seen as a possibility, disrupted energy supply and the resultant energy deficit as a whole have already created different behavior patterns in the energy suppliers and consumers. In the European context, successful agreements in this sphere are limited to bilateral contracts among the EU structures, European energy distributors, and the energy supplier-companies, of which Russia's Gazprom is the largest.

More often than not the very complicated and fairly contradictory positions of the sides involved in the multisided process obscure the real content of the European energy security issue and delay long-term and mutually acceptable decisions. The newly formulated norms of obligatory and strict abidance by the rules of diversification and "free market" in the oil and gas trade have added to the political tension. Given the worst scenario, energy supply might develop into a sphere of bitter rivalry over short-term economic or political advantages. Political interests do not necessarily bring huge profits.

In the European context, the compatibility of the EU's and Russia's long-term energy strategies remains the key issue of the related discussions. The Central Asian countries and Ukraine have an important, but relatively autonomous, role to play in the European energy balance. At the same time, the very fact that the energy security issue belongs to the power and influence context of international relations means that other international political and economic actors intend to increase their presence in European oil and gas trade. The United States has its sights set on becoming involved as one of the sides in oil and gas trade and transit contracts and agreements.

Different Energy Strategies

The widely differing interests of the United States, EU, and Russia prompt them to take different strategic approaches. Unlike the European states, America's energy strategy in the post World War II period developed as a global one: the United States sought control over the energy resources of the Persian Gulf and the Caribbean Sea. The latest forecasts of the looming global energy deficit have forced American energy companies to implement projects that recently looked like science fiction: gas deliveries from South America, North Africa, and the Barents Sea. They have already concentrated on large-scale domestic and international gas projects, including deep-water offshore fields, pipelines in Alaska and the Mackenzie Delta (Canada), and sea terminals to receive the imported liquefied gas the country will use in ever-growing quantities.

The U.S.'s dependence on imported oil will increase;[1] American government experts are convinced that long-term stability of the world energy markets, their manageability, security and reliability will remain Washington's main strategic task. In fact, the U.S. is striving to retain its control over them. This makes guaranteed access to the constantly growing natural gas supplies designed to cover the greater part of the expected growth in energy consumption over the next 30 years especially important.

Today, the Middle East remains America's main supplier of energy resources. The Caspian, a relatively more stable region in the political respect, has not yet become an alternative to Arabian oil and gas. According to the U.S. government assessments for 2004, it potentially contains about 186 billion barrels of oil (32 billion of proven reserves): in the Gulf area proven oil reserves amount to 674 billion barrels. The same applies to gas. The total (proven and potential) gas reserves of Kazakhstan, Russia, Azerbaijan, Turkmenistan, and Iran in the Caspian Basin are assessed at 15,848 tcm; the Gulf's proven reserves amount to 54,420 tcm.[2]

Russian experts are convinced that the Caspian's energy importance was grossly overstated and that it was the region's military-political role that attracted Washington. The American energy companies, however, displayed their interest in the Caspian's oil and gas resources as soon as the Soviet

[1] See: EIA Releases *Annual Energy Outlook 2006*, Full Report, available at [http://www.eia.doe.gov/neic/press/press267.html], 9 October, 2006.

[2] See: *EIA Annual Energy Review 2004*, available at [http://www.eia.doe.gov/aer/], 9 October, 2006.

Union disintegrated: they were obviously seeking new promising sources of energy. The Clinton Administration actively supported the Baku-Tbilisi-Ceyhan project at a time when European business and political circles had not yet developed an interest in the Caspian and Central Asia. America is pursuing numerous goals to achieve the most extensive possible strategic control over Central Asia through its economic, political and military (since 2001) presence. It supplies the United States with tools of pressure in the Gulf zone (Iraq, Iran, and Saudi Arabia). Washington has good prospects for influencing Russia's policy and the policy of regional states by involving American companies in oil and gas extraction and transport. This is not all: America's presence in the Caspian Basin spells its direct involvement in oil and gas deliveries to the EU countries.

The forecasted rivalry over the energy resources in the region bordering on Russia, China, and India is developing into a four- or even five-sided process. Early in the 1990s, it was thought that sooner or later Turkey and Russia would clash in Central Asia.

Reality proved much more complicated than that: there is a precarious Russia-China balance that hinges on their joint opposition to the American presence. To diversify its foreign policy approaches, the United States is relying on its active presence in Georgia and Azerbaijan and is placing its stakes on Kazakhstan, which is indispensable for Central Asian stability and gradually moving toward using the America-controlled oil pipelines. This has already isolated Armenia, Turkmenistan, and Uzbekistan, which are no longer able to actively cooperate with Russia.

The EU tends to look at the Caucasian and Central Asian states as separate geographical units. The European security strategy "A Secure Europe in a Better World" says, in part: "We should now take a stronger and more active interest in the problems of the Southern Caucasus, which will in due course also be a neighboring region."[3]

NATO looks at the Black Sea Basin as part of Europe and the Mediterranean eastern fringe. Despite the fact that earlier prospects of economic association of the Caspian and the EU, as an integrated inter-state alliance, were objectively good, its governing structures have not yet developed a more or less clear South Caucasian and Central Asian strategy.

The forecasts of the European energy strategy for the next 20 years predict bitter rivalry over energy sources (non-renewable resources such as coal, oil, and gas in particular). It was surmised that by 2020 the world would need 65 percent more energy than in 1995 (the demand for non-renewable resources would grow by 95 percent). The "politically unstable" Mid-Eastern oil will play a much greater role in the world energy supply. According to the published forecasts, in 2010-2020 its share in world consumption of non-renewable resources will grow from 30 to 60 percent. In 2020, the share of imported oil in Western Europe's balance of energy consumption will increase from 53 to 85 percent; the figures for gas are 35 and 60 percent.[4]

The correlation between the energy requirements and import of energy fuels in Europe as a whole (Norway, Russia, and Azerbaijan included) is much worse than in the United States, Canada, and Mexico (NAFTA members). In 1995, the European countries imported 16.3 percent of the total amount of energy fuels they used—the corresponding figure for the NAFTA members was 10 percent. Early in the current decade, the EU imported about half of the energy it used; by 2030 the share is expected to reach 70 percent.[5]

The worldwide energy crises caused by the bouts of tension in the Middle East forced the Europeans to place their stakes on Russia's closer integration into the European energy supply system. The

[3] *A Secure Europe in a Better World—European Security Strategy*, Approved by the European Council held in Brussels on 12 December, 2003 and drafted under the responsibilities of the EU High Representative Javier Solana. Brussels, 2003.

[4] See: *Basis of an Energy Strategy for Europe*, Council of Europe, Parliamentary Assembly. Committee on Science and Technology, Doc. 8653, 21 February, 2000, pp 1-2.

[5] Ibid., pp. 2-3.

decision was prompted by the fairly favorable past experience of economic cooperation with the Soviet Union and positive assessments of the political and economic processes now underway in the RF. Until recently, Russia was seen as a more predictable and reliable partner than most of the OPEC members and a source of energy fuels in case of possible irregularities in oil deliveries from the Gulf and North Africa.

In 2004-2005 the situation changed: the skyrocketing oil prices, for which the war on Iraq was partly responsible and from which American energy giants hugely profited, delivered a heavy blow to the European economies. The increase in oil prices was followed by a symmetrical increase in gas prices. The top leaders of Russia, in turn, readily accepted the rules of the game suggested by the George W. Bush Administration: both countries needed higher energy fuel prices. Russia profited from them to a great extent: it used petro-dollars to pay part of its foreign debt, while Gazprom and other Russian companies stepped up their activities in Europe.

In December 2005, President Putin made an important statement: Russia had developed into an energy superpower determined to become a "global energy leader" and a guarantor of energy security for Europe and North America. He also declared that the country would look at its fuel and energy complex and fuel export as a priority. In December 2005, the "gas war" with Ukraine provided a context in which the West translated the Russian president's statements as a threat of economic pressure. The American press launched a campaign of criticism against Russia to prepare the public for possible moves against the energy diktat of the Kremlin.

The episode that followed deserves close attention: the gas conflict between Russia and Ukraine should be described as a local "energy war," a prelude to tougher energy competition and, possibly, to a new phase of interstate relations. The situation, in fact, was much more complicated than it looked at first glance.

The Gas Conflict between Russia and Ukraine

In Ukraine and in Europe, energy security is mostly a political issue; only a few Ukrainian publications demonstrated a more serious approach. This is true of several articles in the *Natsional'nyi interes* (National Interests) journal, which appeared in 2005 and which classified the main Ukrainian political groups by their approaches to the energy transit and gas trade issues.[6]

With a certain degree of generalization, we can say that there were three more or less clearly expressed positions on the Ukrainian political scene: neo-conservative, liberal, and administrative-regulatory.

The neo-conservative approach was represented by former premier Iulia Timoshenko and her supporters who were convinced that oil and gas trade should be maximally liberalized to allow the consumer companies to dictate prices; the consortium that managed Ukraine's gas transport system was to be transformed into a prototype of the first European futures and spot exchange. The neo-conservatives looked at Russia's direct involvement in the EU gas market as threatening the new structure's stability and security. Although in opposition, Iulia Timoshenko displayed a lot of enthusiasm over the U.S. State Department's readiness to stand alongside Ukraine if it demanded annulment of the gas agreements with the RF of 4 January, 2006.

[6] See: A. Starostin, "Ukhod ot 'neftianoy finliandizatsii'," *Natsional'nyi interes,* No. 1, 2005, pp. 33-35; L. Gusak, "Gazovyi balans Ukrainy-2006—prognoz," *Natsional'nyi interes,* No. 4, 2005, pp. 35-40; A. Starostin, "Iuri Boiko: vozvrat epokhi gazovoy poliarizatsii," *Natsional'nyi interes,* No. 4, 2005, pp. 46-49.

The cabinet of Iuri Ekhanurov demonstrated a liberal approach: the ministers agreed that gas prices should be related to the fuel-and-energy equivalent. For this reason, gas was not regarded as an exchange commodity: as a monopolist, the seller could adjust gas prices to oil price fluctuations. The state was to remain the gas transit monopolist; there were also vague plans to invite Germany and Turkmenistan to join the future gas transportation consortium.

It was Viktor Ianukovich's first cabinet (November 2003-January 2005) that supported the administrative-regulatory approach; the neo-conservatives and liberals dismissed it as pro-Russian and comprador.

Those who supported it were convinced that Ukraine should seek compromises with Russia to become a long-term partner of Gazprom and Rosneft as a transit country. This role would ensure acceptable prices in the form of long-term intergovernmental agreements and direct gas supplies under fixed prices as payment for transit. At the same time, there was the conviction that Ukraine should pursue its own, maximally independent, policies by shopping for fuel in Turkmenistan, Uzbekistan, and Azerbaijan to diversify its sources. Much was done to put the Odessa-Brody oil pipeline into operation and extend it to Plock and Gdansk. Current Minister of Fuel and Energy of Ukraine Iuri Boyko and heads of the Ukrainian Union of Industrialists and Entrepreneurs (A. Kinakh, prime minister in 2002-2004 and secretary of the Council of National Security and Defense between September 2005 and June 2006 among them) supported this approach.

The conflict among the three trends proved to be protracted and disruptive; the 2005 ill-devised attempt to revise the Ukrainian-Russian gas transit agreements ended with Gazprom's monopoly on Central Asian gas deliveries. The Ukrainian economy faced another price shock and possible social unrest. The "big policies" echo directly affected the parliamentary election results and split the Orange Coalition then in power.

In 2005 and 2006, Ukraine was busy pursuing certain foreign policy aims; it completely rejected the maneuvering tactics typical of Leonid Kuchma's presidency. However, the Orange leaders, in power since 2005, failed to achieve positive results in any of the priority areas. When talking about their intention to apply for EU membership, the cabinets of Ekhanurov and Timoshenko deliberately burned their bridges in the East. Their intention to alter Ukraine's non-bloc status caused a systemic crisis in its relationships with Russia. Under these conditions, Moscow interpreted Ukraine's invitation to revise the gas transit prices as a bluff that permitted it to ignore the earlier agreements.

In 2005, the Ukrainian leaders did not indulge in publicly announcing their intentions. The random statements that came from the top allow us to conclude that the country had invited the EU to join the Ukrainian transportation consortium (or to replace it with a new project that would oppose Russia's energy strategy). The Timoshenko cabinet planned to set up an alternative company (trade house) to buy and transport Central Asian gas to the EU countries; at least, early in 2005 Poland and Germany were invited to join. The Ukrainian government was busy discussing a new scheme of gas transits without preliminary discussions with Russia. It threatened to set up an alliance of gas users and transit operators (the EU, Ukraine, and Poland) determined to impose their price policies.

The Timoshenko government demanded in harsh terms that the intermediary RosUkrEnergo A.G. company be removed from the scheme of Turkmen gas export, in which it was involved under the 2003-2004 agreements. There were plans to increase the volume of Turkmen gas export to Ukraine between 2007 and 2008 to 60 bcm a year.

The national Naftogaz Ukrainy company repeatedly stated that it intended to set up an alliance of transit and gas-user countries. There were plans to enlarge the format of the idling Ukrainian-Russian gas transport consortium by means of certain European companies, German in particular, and to enlist Central Asian state oil and gas companies. During President Iushchenko's visit to Turkmenistan on 22-23 March, 2005, the Ukrainian side invited Turkmenistan to join the planned consortium of Ukraine, Russia, and Kazakhstan to export Central Asian gas to Europe.

The Ukrainian idea of a tripartite cooperation model with Russia (gas supplier), Ukraine (transit operator), and the EU (gas user) contained at least two projects oriented toward buyers and producers. The Central Asian Consortium was expected to build a gas pipeline and transport Turkmen gas along the Caspian shore. The already discussed route from Aleksandrov Gai (Russia)-Novopskov (Lugansk Region)-Uzhgorod was expected to pump the gas further. A certain European consortium made up of Ukraine, Russia, and Germany was to become the Asian Consortium's partner together with the planned Novopskov-Uzhgorod pipeline; Gazprom would have played a much lesser role in this multisided structure.

According to unconfirmed information, during the gas conflict with the Russian Federation the Ukrainian cabinet voiced its approval of the planned gas pipelines from Central Asia and Azerbaijan to Europe bypassing Russia along the Azerbaijan-Georgia-Turkey-Europe route. The EU energy departments were rumored to have promised to allot financial assistance to the project for branching the pipeline off to Moldova and Ukraine.[7] It is doubtful, though, that the "southern route," if realized, would improve the prospects of Ukraine's energy security, since transit across its territory would be diminished: indeed, the future of the Odessa-Brody oil pipeline with its obvious European orientation is vague, even though it has been formally supported, at least since 2003, by the European Commission.

The energy conflict between Russia and Ukraine continued to mount throughout the fall of 2005: in August, at the talks with RF Minister of Industry and Energy V. Khristenko, Ukraine (represented by Minister of Fuel and Energy of Ukraine I. Plachkov) agreed to a gradual price rise accompanied by higher transit prices. According to the Ukrainian government's press service, "the price of Turkmen gas and its transit across Russia remained unresolved because the transit price in Russia is equal to the transit price in Ukraine."[8]

A series of protracted discussions and mutual accusations worsened the situation; it was still more aggravated by Premier's Ekhanurov's failed visit to Moscow in December 2005 when Gazprom quoted a new price for Ukraine ($220-230 per tcm), which the premier rejected. There was no agreement on new transit prices either. On 31 December, 2005 Naftogaz Ukrainy declined President Putin's latest peace initiative: he invited the sides to sign an interim agreement to be able to continue talking and postpone the price rise until April 2006.

Ukraine lost the three-day "gas war" that followed. After a short conflict the Ukrainian government agreed on almost all of Russia's conditions, which proved worse than Gazprom's summer and fall offers. The Agreement on Relations in the Gas Sphere signed on 4 January, 2006 set the price of $230 per tcm and confirmed the rights of RosUkrEnergo as sole gas supplier to Ukraine. The transit price raised to $1.6 per tcm was to remain unchanged for the next five years and be unrelated to gas prices for Ukraine. On top of this, Ukraine lost its contracts with Turkmenistan, an alternative gas supplier. This spelt a strategic defeat.

Gazprom scored a tactical victory: it detached gas prices from transit rates. Under the new agreement, Ukraine is unable to revise the transit rates and transit conditions for the next five years. We should bear in mind, however, that Ukraine itself rejected barter payments, which allowed it to preserve the gas supply balance irrespective of gas and transit prices.

Seen in the formally legal context, the situation is a strange one: all gas agreements in force before 2006 were annulled without official notification. According to the Ukrainian press, a package of seven documents, mainly of confidential nature, was signed together with the published contract.[9]

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[7] See: "Geoekonomicheskie itogi 'bol'shoy gazovoy voyny'," *Memorandum Instituta natsional'noy strategii,* 21 February, 2006, available at [http://www.lenta.ru/articles/2006/02/20/memorandum/].

[8] "Ukraina neozhidanno soglasilas' s poetapnym povysheniem tsen na rossiyskiy gaz," 23 August, 2005, available at [http://www.korrespondent.net/main/128909].

[9] See: Iu. Mostovaia, A. Eremenko, "Sovershite vy massu otkrytiy (inogda ne zhelaia togo)," *Zerkalo nedeli,* No. 4 (583), 4-10 February, 2006; "Naftogaz podpisal v Moskve sem' soglasheniy s RosUkrEnergo i Gazpromom, a ne odno. Kak okazalos'," *Interfax-Ukraina*, 6 February, 2006.

To sum up the efforts of the two Ukrainian cabinets (Timoshenko and Ekhanurov), we can say that they were not aiming at tapping to the greatest degree possible the country's relative advantages as a transit country to ensure stable gas supplies. They aimed, and failed, at using the country's transit operator status to restructure the entire European energy trade system, a task that Ukraine could not tackle single-handedly. Its European partners, meanwhile, were caught unprepared. Kiev's attempts to launch its own game on the European energy market in the winter of 2006 destroyed the country's energy supply system and caused economic havoc. Ukraine lost the battle for Turkmen gas transit and an Asian Consortium to Gazprom. Saparmurat Niyazov opted for political stability at home; Naftogaz Ukrainy's gas debts to Turkmenistan served as a pretext for cutting down alternative Russian gas supplies to Ukraine in 2006. The Turkmenistan government, meanwhile, reached an agreement with Gazprom on higher gas prices ($65 and, starting in 2007, $100 per tcm).

While being obviously concerned about the January "gas war," the EU countries rejected the Ukrainian and Moldovan requests to interfere and demand that Gazprom freeze gas prices for Ukraine. France and Germany were the clearest in their refusal; Austria refused to interfere; Poland kept silent; and Italy accused Ukraine of stealing the gas intended for the EU.

The U.S. administration tried to establish its control over the gas discussion. After a short delay, in January 2006, U.S. State Secretary Condoleezza Rice announced that her country supported Ukraine. According to the commentaries that came from Washington, America expected that Kiev would resist Russia much longer and much more consistently—it planned to rally Moldova, Rumania, Bulgaria, and Turkey against Gazprom. Support was half-hearted.[10]

The problem of revising the 4 January, 2006 agreements remained suspended until August 2006 when Viktor Ianukovich was appointed prime minister. The United States repeatedly confirmed its willingness to support Kiev in the event it decided to revise the agreement. The U.S. placed its stakes on Iulia Timoshenko who, if elected premier, would set the ball rolling. The Americans were convinced that this should be done in summer rather than in the winter. In the context of another gradually encroaching cold war between the RF and the U.S., the revived gas conflict would have created a suitable background at the St. Petersburg G-8 summit devoted to energy security issues (July 2006). It was expected that on the eve, the U.S. would try to put pressure on the Russian leaders to force them to abandon the scheme of long-term bilateral agreements with EU distributors devised by Gazprom.

The domestic political context of the American plan also deserves special investigation, since President Iushchenko publicly supported the compromise. This means that if the agreement were revised, Iulia Timoshenko would gain more political weight and would be able to insist on revoking the constitutional amendments to pave the road toward the presidency. Some members of Iushchenko's team, former minister of economics A. Iatseniuk among them, supported the idea of inviting the U.S. to control the Ukrainian gas transportation system.[11]

In one of his first statements as prime minister, Viktor Ianukovich warned that his cabinet did not intend to revise the gas agreements with Russia: it merely intended to return to the pre-2005 practice of state agreements.[12]

The cabinet described settlement with Russia as a priority. While never rejecting the European course, the cabinet stressed that Ukraine should tap its transit potential threatened by Russia's new main pipelines being laid along the Baltic and Black seabed and across Belarus. Much was done to

[10] See: *Kommersant,* No. 94, 29 May, 2006.

[11] See: "Ukraina khochet privlech' SShA v partnery po gazu," 2 August, 2006, available at [http://www.oilru.com/news/32766/].

[12] See: "Novyi prem'er-ministr Ukrainy Viktor Ianukovich zaiavil, chto ne sobiraetsia peresmatrivat' gazovye soglashenia s Rossiey," 11 August, 2006, available at [http://www.oilru.com/news/32915/].

fully tap the capacities of the underloaded Ukrainian transit oil pipelines being used at less than half of their capacities.

This was meant to create strategic partnership between Gazprom and Naftogaz Ukrainy, the state company responsible for European transit yet losing its leading role of a gas trader on the domestic gas market. Under these conditions, any irregularity in gas deliveries to Europe or even talks about cutting them down are disastrous for the reputation of the Ukrainian cabinet and the company. On the other hand, the cabinet confirmed its intention to retain state monopoly on the transit gas pipelines, which under skilful management could remain reliable even if serviced by the state monopoly.

The EU energy directorate will have direct access to information about the terms and volumes of gas transit across Ukraine. The memorandum On Mutual Understanding on Cooperation in the Energy Sphere the EU and Ukraine signed in Brussels on 14 September, 2006 presupposed that the gas pipelines at the Ukraine's borders would be fitted with measuring equipment to allow the European Commission, which funded the project, to control oil and gas transit. European Commissioner Benito Ferrero-Waldner described the Memorandum as a concrete step toward greater transparency, reliability, and security of energy supplies and transit to the EU.

According to anonymous information from the RF government, during his first visit to Russia Premier Ianukovich asked President Putin and Premier Fradkov to replace RosUkrEnergo, an intermediary imposed on Ukraine by Gazprom, with Gazprom or a JV with Naftogaz Ukrainy. Moscow refused because, as certain Russian bureaucrats explained, it was fundamentally important for Russia not to let Gazprom sell gas directly to Ukraine to be bogged down in haggling. RUE is involved in numerous schemes, they said, and there was no time to reorient them.[13]

Interests and Contradictions

Early in 2006, under the impact of the gas dispute between Russia and Ukraine the international discussion about gas deliveries from Russia and their reliability flared up once more. Freed from purely speculative theses, the EU concerns can be boiled down to the following three fundamental issues:

1. Stable gas deliveries to Europe threatened by the rapprochement of Russia and China.
2. Monopoly diktat of high gas prices ensured by Russia's control over the Central Asian pipeline system.
3. Gazprom's wider involvement in the ownership of European gas distribution and other companies infiltrated by Russian capital which grows on high oil and gas prices.

European experts and politicians were concerned that Russia's greater financial and economic might may, in the future, strengthen its political position, thus undermining the Atlantic's solidarity position. The European Commission invited Russia to sign a framework agreement with the EU under which Gazprom would sell gas only at the EU borders, while the EU gas companies would be free to sell it across Europe without territorial restrictions. At the May 2006 Russia-EU summit, however, the European Commission retreated somewhat from its harsh demands. Moscow, in turn,

[13] See: A. Bekker, T. Ivzhenko, "RosUkrEnergo poterpit ubytki v politicheskikh tseliakh," *Vedomosti,* 28 September, 2006.

guaranteed uninterrupted energy supplies to the EU for the long term, but refused to retreat on issues of investment freedom and the movement of capital; it demanded that discriminatory restrictions be lifted.

Soon after that the Russian side took measures to monopolize transit: on 5 July, 2006, the RF State Duma passed the Law on Gas Export, which gave Gazprom (as the owner) and its subsidiary companies exclusive rights to the use of gas pipelines. In other words, whereas in the past the EU insisted on the reorganization of Russia's domestic market, today the RF government has placed its stakes on restoring the state's absolute control over the Russian sector of gas extraction and transportation. The law contradicts the European Energy Charter, which insists on the contract use of transport mainlines; this can be described as an attempt to establish Gazprom's monopoly over the transportation of Central Asian gas to Europe. Significantly, at first the draft was aimed at excluding competition among Russian suppliers abroad, which might push down gas export prices.[14]

The Russian government's harsh and very obvious measures designed to limit the interests of foreign investors (together with the Kremlin's obvious influence on Gazprom and other Russian state monopolies) forced the European Commission to look for alternative sources of oil and gas, an area in which the United States outstripped the EU long ago. The first American projects in Azerbaijan and Turkey are underway, while the Nabucco gas pipeline from Iran and Central Asia across Turkey to Southern Europe, which the EU has been discussing for a long time, has not yet passed the technical examination stage.

By interfering in the Russia-Europe gas polemics, the U.S. is pursuing its own interests. The George W. Bush Administration took into account the negative context created by the Russia-Ukraine "gas war" as well as Russia's tainted image in Europe, while consistently promoting the gas transportation system in the Southern Caucasus to oppose Russia's plans in the Baltic Basin. America's Caspian strategy presupposes that the Central Asian countries will join the Turkish transit route (as opposed to Russia's route): there is a strategy to bypass Iran across Azerbaijan, Georgia, and Turkey.

In the south, oil transit is treated as a priority. On 16 June, 2006, with the Baku-Tbilisi-Ceyhan oil pipeline officially commissioned, the long talks between Kazakhstan and Azerbaijan finally produced an agreement on moving Kazakhstani oil across the Caspian to make the new pipeline profitable.

The South Caucasian gas pipeline (Baku-Tbilisi-Erzurum) commissioned in 2006 is of local importance; it runs parallel to the BTC oil pipeline to bring gas to Georgia and to exclude Iran from the gas-related scheme. This explains the enthusiasm with which the Georgian leaders are rupturing all contacts with Russia.

In its statement of 22 June, 2006, the U.S. State Department described the South Caucasian gas pipeline as a project of strategic importance and an embodiment of the East-West contacts. This meant that the new line would move Azeri gas to Greece, Italy, and the Danube Basin. Matthew Bryza, U.S. Deputy Assistant Secretary of State for Southeastern Europe and Central Asia, pointed out that the new pipelines would diversify the energy fuel markets in Europe and ensure reliable supply of oil and natural gas to the continent.[15]

Large energy concerns, Texaco and Chevron among them, which intend to invest at least $5 billion in the gas pipeline, have already displayed an interest in the main pipeline to Turkey sup-

[14] See: "Monopolia na eksport gaza: otkrytogo konflikta ne poluchilos'," 5 July, 2006, available at [http://www.news.central.kz/archive/hind.chem.oilgas/200607/06023144.text].

[15] See: "Matthew Bryza: Truboprovody BTC and SCP sozdaiut infrastrukturu novogo pokolenia dlia eksporta uglevodorodov iz Azerbaijana," 5 July, 2006, available at [http://www.news.central.kz/archive/hind.chem.oilgas/200607/06023144.text].

ported by U.S. Vice President Cheney. The project is intended to achieve Russia's geopolitical containment.[16]

It is expected that the line will cross the territories of American allies (all interested sides will be allowed to join). At the stage of preliminary consultations, it was suggested that gas-liquefying capacities should be set up at Poti and Batumi, two Georgian ports, to ensure further transportation across the Black Sea and Ukraine.

America, Poland, and the Baltic countries are resolved to undermine the North European gas pipeline laid along the Baltic seabed and designed as an exclusive and independent energy source for Germany. So far the opponents have been working hard to discredit Russia by accusing Moscow of hegemony and imperial ambitions, which the Russian leaders frequently displayed.

Poland and the Baltic countries, the most ardent opponents of the new pipeline, are actively criticizing Russia's energy policy in the EU. Polish President Lech Kaczyński, the most pro-American leader among the EU heads of state, came forward with a plan to set up a European Energy Union (a so-called Energy NATO) to neutralize the independent energy policies of certain countries (Germany, France, and Italy) and to give American energy companies a greater share in the energy deliveries to Europe. Poland insisted on coordinated energy policies of all the countries involved. The Polish project presupposed that Energy Union members would compensate for the ruptured energy supplies to one of them under the joint and several liability principle. The key points of the European Energy Strategy were approved on 8 March, 2006, but the European Commission concluded that a completely integrated energy policy was premature: the EU members could not agree on potential diversification routes.

Poland's desire to diminish its dependence on Russian energy fuel deliveries and the fact that the EU proved unprepared to create an integrated energy policy placed the energy issue in the center of Polish Premier Jarosław Kaczyński's visit to the United States in September 2006. Poland tried to exchange its support of Washington's plans to move gas across Turkey for much larger funding for itself in connection with an American anti-missile base that was to appear on its territory.

The Americans' willingness to regulate energy supplies and control them betrays their desire to place the European economy under its control for a long time to come. Channeling energy resources and staging crises will serve the purpose and keep the euro exchange rate in check. The U.S. is out to weaken the EU-Russia strategic link, which, some time in the future, would prove instrumental in the EU's foreign policies and boost its international status.

So far the European leaders are treating Gazprom's expansion and America's intention to ensure Europe's energy security with caution and responding with maneuvering. The ownership and control issues remain the key ones, urging Europe to seek diversity. It was in this context that an alternative project for a gas pipeline (with a total cost of $2 billion) to connect the Caspian and Central Europe was presented in March 2006; an international consortium of five European companies was set up; and a one-thousand-kilometer-long stretch of pipeline from Georgia and Ukraine was to be laid along the Black Sea bed.[17]

Even if the U.S.-supported project (Iran-Turkey-the Balkans-Western Europe) or the European alternative are implemented, neither would diminish Russia's share in the EU gas deliveries. To accomplish this Iranian gas would be needed. The EU plans to diversify gas supplies (the pipelines from Asia included) will hardly create a real alternative to Russian deliveries in the near future. The Russian Federation will continue as the key (even if not the monopoly) supplier. Old Europe prefers to go

[16] See: J. Bielecki, J. Przybylski, "Gazociąg z Azji za tarczę?" *Rzeczpospolita,* 4 September, 2006.

[17] See: "Ukraina, Gruzia i ES khotiat postroit' gazoprovod za $2 milliarda," 17 March, 2006, available at [http://www.korrespondent.net/main/148306].

on talking to Moscow in an attempt to convince it to join the European Energy Charter, which would allow European and American companies to compete for access to Central Asian resources, thus driving Gazprom out and preventing Chinese infiltration.

Any successful solution should take at least two factors into account: involving Ukraine in Europe's energy policies as the key transit operator responsible for over 85 percent of deliveries of Russian and Central Asian gas and putting an end to Gazprom's monopoly on gas transit in Central Asia.

Viktor Ianukovich and his cabinet obviously intend to join the EU-initiated game (as long as it does not threaten the country's main economic interests). After the Kiev talks with André Mernier, Secretary General of the Energy Charter, Minister of Fuel and Energy of Ukraine Iuri Boyko announced that since his country had paid off its gas debt to Turkmenistan and had signed contracts with Uzbekistan, Kazakhstan, and Turkmenistan on 58 bcm of gas, it had no intentions of buying gas from Russia in 2007.[18]

In other words, the government will exploit the country's transit potential to the full; it will guarantee gas supplies to Europe and will return, as far as it can, to the individual agreements with Central Asian countries practiced in 2000-2005. Ukraine finds those Energy Charter provisions formally profitable that speak of the freedom of energy transit along the main pipelines and dispute-settling mechanisms.

At the same time, since gas in Ukraine is cheaper than in the neighboring states, it might find itself vulnerable if Russia loses control over the Central Asian energy resources to the U.S. and EU, or if the RF and China gain control over them. Today the gas-related rivalry is dangerous for Ukraine's economy: if Russia permitted free gas transit along its pipelines, the European and American companies would be able to buy gas from the Central Asian states at a price Ukraine would find unaffordable. Central Asian gas prices will grow to reach the Russian and North African level, therefore, it is unlikely that the Ukrainian companies will be able to compete with the European traders: financial problems and a general shortage of energy resources might leave the country's industry in the cold. Ukraine will probably earn more money than before as a gas transit operator, but not enough to compensate for the upturned price balance.

Russia's adherence to the Energy Charter would allow the European companies to achieve somewhat lower prices on Russian and Turkmen gas or, at least, contain them. There is another possibility: once on the market, American companies, which normally stick to their own policies and seek maximum profit, may start "buying for a rise." We cannot exclude the possibility that American transnational companies might try to gain control over the transit gas pipeline systems in Ukraine, Poland, and Slovakia. This will bring Europe to the brink of another fierce "gas war" for financial and economic control over gas resources as well as distribution and transit systems. This will push the RF-EU contradictions to the side.

Russia's influence in Central Asia is as strong as ever. The 21 September, 2006 Protocol of Intent on the Key Cooperation Principles in the sphere of natural gas transportation and deliveries that involved Gazprom, the Uzbekneftegaz State Holding, the Ministry of Energy and Mineral Resources of Kazakhstan and the KazMunayGaz state company were intended to supply the south of Kazakhstan with Uzbek gas through Gazprom as an intermediary. While the local countries profited from the extremely favorable conditions of mutual compensation schemes, Gazprom confirmed its central role—it has no intention of abandoning control over the region's gas transportation system.[19]

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[18] See: "Ukraina otkazalas' zakupat' rossiyskiy gaz," 6 October, 2006, available at [http://www.korrespondent.net/main/166433].

[19] See: "'Gazprom' meniaet uslovia postavki gaza v strany SNG," 22 September 2006, available at [http://www.ibk.ru/news/_gazprom_menyaet_usloviya_postavki_gaza_v_strani_sng-23386/].

If Gazprom extends its control over gas transportation systems in Belarus, Russia is unlikely to become more yielding when talking to the EU. On the other hand, neither the EU nor the U.S. has enough resources to accomplish a regime change in Russia or force Moscow to abandon its efforts to become the gas-transportation monopolist on the former Soviet territory. There is not much sense in upbraiding Russia for its efforts to set up a "gas OPEC:" the United States and Europe have accepted the oil OPEC for over thirty years now. In other words, a mutually acceptable solution should be sought elsewhere.

Today, the relations among America, the EU, and Russia permit several alternatives:

1. The EU and Russia agree on long-term gas deliveries based on the mechanism of price agreements. Convinced by the EU, Russia recognizes the rights of investors working at individual gas fields and introduces a mutually acceptable gas transit regime across Russian territory in exchange for the possibility of investing in EU gas-distributing companies.
2. The United States brings the EU onto its side in implementing the "southern gas transportation route" to contain Russia and put political pressure on its leaders. In this case, America will consolidate its position in Turkmenistan, Uzbekistan, and Kazakhstan to prevent, in particular, energy deliveries to China. If realized, this alternative (the Caspian strategy) might lead to a regime change in Turkmenistan, destabilization in Uzbekistan, and further isolation of Iran.
3. The EU, Russia, Ukraine and the Central Asian countries reach mutually acceptable agreements as to the game rules on the gas market together with adequate balancing mechanisms. The sides might come to an agreement on gas prices, gas transit, ownership rights to gas transit systems, and protection of investor rights. A gas-transportation consortium might prove instrumental in realizing a much more balanced and undiscriminating regime, which will allow the sides to enter cartel agreements on delivery volumes and transit control over the consortium's territory.

In view of the position President Putin has already outlined, Russia will probably never accept the Energy Charter in full. At the same time, an additional agreement between the EU, RF, and Ukraine is possible. If implemented, it would relieve tension and open the road to compromises. Russia agrees, at least at the official level, that there are no alternatives to collective multisided approaches to world problems, be they in the economy, environmental protection, the social sphere, or world politics.[20]

In all other cases, Europe should be prepared to face a new energy conflict, the terms and intensity of which will depend on the level of energy shortage and relations among the United States, the European Union, Russia, and China. Today such relationships depend to an increasing degree on energy consumption and energy prices.

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[20] See: Briefing ministra inostrannykh del Rossii Sergeia Lavrova, 3 October, 2006, available at [http://g8russia.ru/news/20061004/1264315.html].