

# ESCAPING GAZPROM'S EMBRACE

————— Borut Grgic & Alexandros Petersen —————

In the first month of 2008, Russia's state-controlled natural gas monopoly, Gazprom, ticked off two more European countries that will rely almost entirely on Moscow for their everyday energy needs. On January 18<sup>th</sup>, Russian President Vladimir Putin, accompanied by his anointed successor, Gazprom chairman Dmitri Medvedev, pressured the government in Sofia into signing an energy deal with Russia and providing its backing for the construction of the South Stream gas pipeline from Russia to Bulgaria, and further into Europe, undercutting EU- and U.S.-backed plans for a pipeline from Turkey. Then, a week later, Serbian President Boris Tadic, accompanied by his prime minister, visited Moscow and signed on the dotted line, allowing Gazprom to acquire a 51 percent stake in Serbia's national oil company (NIS). The ambitious move not only strengthened energy links between the two Slavic nations, but bolstered ties between the two most vocal opponents of independence for Kosovo.

Such developments highlight the stark reality now faced by decisionmakers in Brussels and other European capitals. They must choose between the status



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quo, energy overdependence on an assertive Moscow, or a new future: alternative routes from alternative sources, such as the Caspian region.

The situation is dire. Europe's substantial—and growing—energy needs have made its leaders chronically unable to resist the lure of Russia. Not just Bulgaria and Serbia, with their traditional ties to Russia, but Germany, Italy, France, Austria, Greece, Hungary and Slovakia have all been seduced by the siren song of easy energy from the Kremlin. Some have argued that these governments cannot be blamed for arrangements that facilitate heating and light for their citizens. But it has become abundantly clear that these deals come at a steep cost: the unity of the EU itself. Every exclusive bilateral deal with Russia jeopardizes another European state and countless commitments to interdependence. Every agreement that increases the continent's dependence on Moscow weakens Europe's geopolitical leverage and undermines the European project itself. Reversing this trend requires that Europe develop a coherent and effective strategy for improving its energy security.

### **Gazprom's march into Europe**

Overdependence on any country for key energy supplies is unwise, but the EU is uniquely vulnerable in this regard. It is the world's greatest energy importer, and the largest consumer without significant energy reserves. European countries depend on Russia for their oil consumption, anywhere from 30 percent for Belgium to 85 percent for Bulgaria, with the figure always far higher than the next largest source. For gas, they are dependent from 32 percent (for Italy) to 100 percent for Bulgaria, Estonia,

Finland, Latvia, Lithuania, and Slovakia. This dangerous dependence, moreover, is on the rise as coal, lignite, peat and other sources are progressively depleted.

Given Moscow's recent assertive foreign policy moves, such as claiming the North Pole and flying nuclear bombers to Scotland and Guam, as well as the Kremlin's track record of using energy for political gains against Azerbaijan, Belarus, Georgia, Ukraine and EU-member Lithuania, one would think that European decisionmakers would be rushing to ameliorate the continent's overdependence on Russia. Indeed, a recent poll by the German Marshall Fund found that 59 percent of Europeans "expressed concern about Russia's role as an energy provider," while 56 percent "expressed concern about Russia's behavior toward its neighbours."<sup>1</sup> But as a practical matter, little is being done to decouple Europe from this energy embrace.

The government of Chancellor Angela Merkel in Berlin, for example, seems unable to provide the leadership that could stem Gazprom's march into Europe, even though the majority of Germans are wary of Russia's approach to neighboring states. Her government is still moving ahead with plans for the Nord Stream gas pipeline, agreed to by her predecessor, Gerhard Schroeder, and President Putin. This exclusive project would bypass the Baltic countries and Poland, and has drawn protests from Finland and the Scandinavian countries for being environmentally questionable. Never mind that a few weeks before Schroeder stepped down as Chancellor in order to chair the board at Nord Stream's Gazprom-controlled construction consortium, the German government guaranteed \$1 billion of the project's costs. Never

mind also that Schroeder's boss is a former Stasi officer who worked with Mr. Putin while he was stationed in Dresden with the KGB.

Gazprom has been busy on other fronts as well. For some time, it has been attempting a takeover of Hungary's MOL energy company. Simultaneously, it has pursued Austria to accept a deal to create a Gazprom hub within Europe at Baumgarten.

The deal with Serbia was a masterful illustration of the nexus between geopolitics and energy that is central to Gazprom's activities in Europe. Gazprom paid 400 million euros for a majority stake of a national company valued at 2 billion, no tender, no transparency, and no questions asked—not even by the EU. Plus, Moscow knows that the value of NIS will only increase if Serbia joins the EU, despite the section of the deal that required Serbia not to upgrade NIS refineries to European standards for another five years. While we can not be certain of the final arrangements, the draft deal included the stipulation that Gazprom would have the right to a 51 percent stake in all gas infrastructure in Serbia, with access to 100 percent of its capacity. In return, Moscow seems merely to have reinforced its empty vow to veto any UN resolution recognizing Kosovo's independence.

These and other steps constitute a concerted and holistic strategy on the part of the Kremlin, one which *Russia in Global Affairs* editor Fyodor Lukyanov has described as follows: "Wherever possible, it is necessary to increase Russia's presence in Europe, either inside the EU or in countries that have a chance to join."<sup>2</sup> Connecting the dots from here is easy. In pursuing this strategy, Gazprom, and thereby Russia's leadership, is putting the pieces in

place not only to pit the states of the continent against one another, but to geographically split Europe in two through a line that stretches from Bulgaria through Serbia, Austria and Italy. Such a cordon of energy dependents, with Hungary and Greece as extra fortification, could prevent the flow of energy from alternative sources through Turkey into the EU, effectively cutting the member-state aspirant off from the Union, and diminishing its prospects as a crossroads for Europe's energy imports from the south and southeast.

### **Brussels fiddles as Moscow divides and conquers**

To be fair, the EU Commission has since at least 2005 acknowledged the dangers involved in facilitating Gazprom's continental ambitions. European Energy Commissioner Andris Piebalgs, along with Commission President Jose Manuel Barroso, has called on the governments of European member-states to "speak with one voice" when confronting Kremlin-controlled energy interests.<sup>3</sup> However, not only has their advice fallen on deaf ears in some of Europe's most powerful capitals, they themselves have failed to push harder for unified rhetoric and synchronized action. While, for the most part, the EU Council sets the agenda and the Commission implements it as best it can, Barroso and his deputies have not played the important coordinating role needed to enact a strategy to ameliorate Europe's energy security woes. Instead, while Mr. Putin was shaking hands with the Bulgarians and Serbs, the Commission was busy setting overly-ambitious targets for member-states to curb their carbon emissions.

Make no mistake, the vibrant discussion now under way in Europe about the continent's carbon footprint and reductions in the use of fossil fuels is immensely positive, for both ecological and practical reasons. If the Commission's minimum target is met, and 20 percent of the continent's energy is produced from renewable energy sources by 2020, Europe will have gone a long way toward bettering its energy security. But Brussels still lacks a unified approach for addressing the energy problem of today—Gazprom's policy of divide and conquer within Europe—as opposed to that of tomorrow.

Aside from Gazprom's expansionist and overtly geopolitical activities, it is in the interests of European decisionmakers to be fully aware of exactly who is in charge. While Gazprom is not entirely state-owned, its individual investors do not present a brighter picture, nor do they control the majority share. Take Suleyman Kerimov, Gazprom's largest private stakeholder. The "Sage of Dagestan," one of Russia's notoriously criminalized republics, is also known as "Russia's richest civil servant." Among other troubling activities, the Duma deputy—who owns a 4.5 percent stake in the energy giant—has been implicated in the Iraqi Oil-for-Food scandal.<sup>4</sup>

Further inroads by Gazprom, in other words, will not lead to a European energy sector of the kind policymakers in Brussels seek: devoid of corruption, depoliticized and properly regulated. Indeed, no Russian energy enterprise operating today meets these criteria. But Gazprom and its many subsidiaries are worse than most, known for some of the industry's most egregious environmental practices and lacking the kind of corporate social responsibility that goes

hand in hand with Brussels' environmental priorities.

## **The scramble for the Caspian**

In the scramble for the energy-rich Caspian, meanwhile, Europe is in last place. Despite the fact that Europe's need to diversify its energy imports is more acute than that of America or China, Europe lags behind both—and all are trying to catch up to Russia in securing energy reserves under the Caspian seabed and in surrounding Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan. The greater Caspian region holds the world's third largest reserves of hydrocarbon energy. Yet, despite the fact that Russia, with its own vast reserves, taps this energy and sells it to Europe at more than double the domestic price, the EU has neglected to act in its own interest in the region.

Turkmenistan, isolated for almost two decades under the rule of Saparmurat Niyazov, the self-styled Turkmenbashi (leader of all Turkmen), is experiencing an awakening of sorts under his successor, Gurbanguli Berdimukhammedov. The country's vast gas reserves under the Kara-Kum desert, estimated at anywhere from 2 trillion to 20 trillion cubic meters, are being targeted by Russian and international energy companies, mostly American. China is also heavily involved in this game, possessing the only on-land gas drilling license, and offering to sign contracts committing to 30 years of energy imports from the former Soviet republic. And while Russia views and acts in the region as if it were its backyard, Berdimukhammedov has inched toward the West. The Turkmen leader made a point of visiting Brussels in

November, and has begun to improve ties with Azerbaijan in an attempt to restart regional action toward a Trans-Caspian gas pipeline.

The current Slovenian EU Presidency has the vision and tools to plant Europe's initial stake in the Caspian scramble. Dmitri Rupel, Slovenia's foreign minister, who is heading the presidency, and Danilo Turk, the country's new president, are both experienced diplomats who can bring important skills to the table in orienting EU priorities toward the Caspian. However, if action is not taken immediately, the EU could risk attempting too little too late. Such was the case in the 1990s, when a similar scramble ensued for Azerbaijan's initial energy offerings. Through a major and multifaceted diplomatic effort that involved close partnerships with Azerbaijan, Georgia and Turkey, the U.S. was able to realize the so-called pipe-dream of the Baku-Tbilisi-Ceyhan oil pipeline and its sister project for gas, the South Caucasus Pipeline. Despite its relative inaction in spurring the endeavor, Europe has benefited tremendously—indeed, more than the U.S.—from the alternative routes generated as a result. Yet it does not seem to feel the need to repeat that successful exercise.

It would do well to do so with a Trans-Caspian gas pipeline to Turkmenistan and an enhanced oil exchange with Kazakhstan. An effort of similar vigor is needed to realize Nabucco, from Turkey through Bulgaria, Romania and Hungary to Austria and the rest of Europe. The Nabucco project is perhaps the most relevant for Europe this century. Other ideas, such as reversing the existing Ukrainian Odessa-Brody pipeline and extending it to Gdansk, as well as the White Stream project that could bring gas

directly from Georgia to Romania across the Black Sea, should be supported as well. Every effort should be made to develop independent European access to the Caspian energy market. But these projects will only be commercially viable if alternative sources in the Caspian region are cultivated.

## **A new Caspian strategy for Europe**

If it acts now, Europe is in many ways best placed to engage the region. Not only are the energy-rich governments of Azerbaijan, Kazakhstan and (increasingly) Turkmenistan eager to develop "multi-vector" strategies that provide them with several foreign policy options, but Europe is often mentioned as the favored choice in this context. Russia's shadow is one that Caspian states would generally prefer to avoid, but have a hard time doing so. China presents interesting economic opportunities, but is politically incompatible. And the U.S., for better or worse, is seen as a somewhat discredited and distracted actor—fumbling between promises of empowerment and dissonant criticism about governance. While Iran wields some influence in ethnically-linked Tajikistan, its ambitions in the region do not match its capabilities. And while Turkey's involvement is positive, it is viewed in the region first and foremost as the gateway to Europe. Despite its organizational weaknesses, therefore, the EU has an opportunity to step into the Caspian utilizing its strengths: dialogue, soft power, investment and development—not to mention a major market for energy exports.

However, to do so, European decisionmakers must approach the region in a coordinated fashion.

So far, the Caspian Sea's western shore, the South Caucasus, has been engaged largely through the European Neighborhood Policy, while the eastern shore, Central Asia, has had contact with the EU through the TACIS development program and the German Presidency's Central Asia strategy. Not only have these approaches not gone far enough, they have been configured in such a way as to unnecessarily split the region.

The stakes are high. While individual energy reserves in Azerbaijan or Kazakhstan at first glance do not seem overwhelming, the Caspian region as a whole presents a major energy source to rival Russia, Iran and even the Gulf states. The EU, supported by key member-state governments, must therefore develop a Caspian-centered policy for the region. Practical steps to be taken now could include immediate consultations by the Commission with former U.S. diplomats and Azerbaijani, Georgian and Turkish officials involved in the realization of the "world's biggest energy project," the aforementioned BTC pipeline, in the face of enormous Russian and Iranian pressure. Such discussions could yield insights into how to create new momentum in the construction of the Nabucco and Trans-Caspian pipelines. The Council also could launch a task force of experts on EU-Caspian energy dialogue in order to ensure that the EU stays competitive amongst other interested parties. The EU could also collapse its special offices for Central Asia and the South Caucasus into one department: the EU's Special Envoy for the Caspian region. Finally, Brussels and the states of Europe can position themselves in the Caspian as the most qualified brokers to achieve the regional "synergy" currently pursued by the EU in the Black Sea.

These steps should not be undertaken as a matter of European benevolence. Rather, Europe *needs* the Caspian to ameliorate its overdependence on Russia and strengthen continental interdependence. European decisionmakers cannot afford to ignore the reality that Russia's increasingly assertive foreign policy behavior is a manifestation of its self-image as an "energy superpower," or that Europe's indolent facilitation of that status progressively undermines its leverage and unity. If Europe does not commit collectively to a Caspian-centered strategy, the continent will gradually splinter, and only one aspect will unite all its states—dependence on Gazprom and the Kremlin leadership for the stuff of life: fuel for cooking, heat in the winter, and light in the dark.



1. German Marshall Fund of the United States and the Compagnia di San Paolo, "Transatlantic Trends 2007: Key Findings," n.d., [http://www.transatlantictrends.org/trends/doc/Transatlantic%20Trends\\_all\\_0920.pdf](http://www.transatlantictrends.org/trends/doc/Transatlantic%20Trends_all_0920.pdf).
2. As cited in Brian Whitmore, "Russia: Gazprom's Advance into Europe Continues," *Radio Free Europe/Radio Liberty*, January 25, 2008, <http://www.rferl.org/featuresarticle/2008/01/f2269a3e-1135-4c4b-add3-6951838b6aa7.html>.
3. As cited in Anne-France White, "Barroso Calls for Strong EU Energy Policy," [theparliament.com](http://www.eupolitic.com/EN/News/200611/ae62ded5-0e8a-4327-a1c5-4b7e15a6bc3c.htm), November 20, 2006, <http://www.eupolitic.com/EN/News/200611/ae62ded5-0e8a-4327-a1c5-4b7e15a6bc3c.htm>.
4. Jules Evans, "A Rollercoaster Ride with the Caucasian Billionaire," *The Spectator* (London), February 24, 2007, [http://findarticles.com/p/articles/mi\\_qa3724/is\\_200702/ai\\_n18632496](http://findarticles.com/p/articles/mi_qa3724/is_200702/ai_n18632496).