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GAS FEUDS: Russia and the EU's Energy Security

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Russia's recent gas dispute with Ukraine has been the latest in a series of energy supply disruptions to Europe since the 1990s. Along with Gazprom's monopolistic behaviour and limited development of Russian energy resources and infrastructure, such an incident further highlights Russia's standing as an unpredictable energy partner for the European Union.

THE FEUD over transit charges, gas prices, and overdue debts between Russia and Ukraine since New Year's Eve resulted in the cutoff of Russian gas supplies via Ukrainian pipelines. The consequences of the gas row transcended the two countries and left millions of Europeans without heat for almost two weeks. Russia, which has the world's largest gas reserves, is the European Union's (EU) principal external supplier of oil and natural gas. The EU currently imports nearly 25 percent of its gas needs from Russia, 80 percent of which is transported via Ukrainian pipelines. Russian stakes in the EU's gas imports is forecasted to increase from 40 percent to 60 percent by 2030. The EU's dependency on energy imports is set to rise over the impending future as production from the North Sea diminishes and member states limit coal consumption and increase electricity usage, of which natural gas is essential. The EU's projected dependence on Russian energy sources in the long term jeopardises the bloc's energy security.

Russia's Stance on Natural Gas to the EU

It is important to keep in mind that Russia has a recent history of cutting off oil and gas supplies to its neighbours, many of whom are hosts to pipelines that convey oil and gas supplies to Western Europe. As early as 1990, and then again in 1992, Russia suspended energy supplies to the Baltic states. Later on between 1998 and 2000, Transneft, Russia's nationalised pipeline monopoly, disrupted oil supplies to Lithuania on nine occasions. In recent years, Russia's reliability of delivery was once again called into question when Russia temporarily suspended oil or gas supplies to Ukraine in January 2006, to Belarus in January 2007, and to Ukraine this month; both countries function as transit states for pipelines that transport Russian energy to the European market. Despite the disruptions having been

resolved in a matter of days or weeks, the incidents draw attention to Russia's potential as a capricious energy exporter.

In light of the fact that Russia transports the majority of its energy exports to Western Europe via Ukraine and Belarus, the EU is directly affected by supply disruptions even if Russia does not explicitly target the bloc. Russia's recent history of suspending energy shipments brings to light its ability to intentionally disrupt energy supplies. Bearing in mind that Russia is the world's principal gas supplier, the EU's growing dependence on gas imports and the lack of substitutions for pipelines leaves the EU at the whim of Russian interests. Six nations in the EU are already completely dependent on Russia for their gas imports thus far. The supply disruptions reveal a vivid warning that Russia's reliability as a primary energy supplier, as well as its willingness to use its energy exports for political or economic leverage must be thoroughly examined before the EU is too entrenched in gas dependence on Russia.

Gazprom's Monopolistic Behaviour

Due to the rising demand for natural gas and the high cost of production, there is the possibility that Russia may increase its gas prices in the future. Two responses will arise in this situation. First, the neighbouring transit states will not be able to pay at the higher prices which will result in cutoffs of supply, thus directly impacting the EU. Second, the EU will likely fall into a situation where it must deal with the price hike, at least before it is able to manage negotiating a lower price.

Another scenario is that Russia may be unable to meet its necessary export requirements during harsh winter periods. This will directly impact the EU due to a constrained supply, and because some transit states may siphon gas exports for their domestic usage. This situation has already occurred when Gazprom briefly decreased supplies to its European market during a particularly harsh winter in January 2006. Cutting-off gas supplies in the early days of the year has become a routine practice. As recently as January 2009, Russia cut off gas supply by blaming Ukraine of diverting natural gas for its domestic use that was supposed to be transported to the EU.

Limits to Russian Energy Resources and Infrastructure

In spite of the fact that Russia possesses a quarter of the world's gas reserves and is the number one producer and exporter of natural gas, the question on hand is whether Russia is in a position to uphold its long-term gas export obligations. In 2012, Russian domestic consumption is anticipated to require an estimated 440-480 bcm, while the European Union will need 168 bcm of Russian gas. Taking into account Russia's other gas consumers (including its domestic population), the projected production rate will be inadequate to meet the EU's demand level during that period.

The three major gas fields, which comprise 70-80 percent of Russia's total gas production, are 50, 65, and 80 percent exhausted, respectively. Although new fields have been discovered in the far eastern and northern regions of the country, they will require new transportation systems, since they are vastly distant from Russia's export markets and existing pipeline infrastructure. Large sums of investment and advanced technology are also needed because they are located in geographically inhospitable terrain. Considering that Gazprom does not possess adequate funds, even with its profits, or the technology necessary to make such investments, the need for foreign investment is absolutely essential. However, the possibility for foreign investment is currently limited due to the global diminution of capital, the unstable and opaque investment climate in Russia, as well as shaky confidence in Russia's position as a dependable investment partner.

Diversify or Face Stark Consequences

Although it may be unlikely that Russia would use its gas supplies as a direct form of leverage against

the EU, its prickly relations with transit states negatively impact the flow of gas supplies to the EU. Russian gas supplies are and will continue to comprise the largest share in global gas exports. However, the realities of supply disruptions and underinvestment in the Russian gas sector may prove to strategically annul the unparalleled abundance of their gas reserves. If Russia does not reverse its course of unreliability and hindering foreign investment in its energy sector, the European Union must reduce its demand and work towards energy diversification in order to protect its energy security.

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