

Russia-Ukraine Gas War: Europe's Winter of Discontent

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More tricks and hot air from across the Atlantic leave Europeans in the cold

A hurried resolution to the Ukraine-Russia gas war was reached during a visit to Moscow by Ukrainian Prime Minister Yulia Tymoshenko to meet with her Russian counterpart, Vladimir Putin this week. Ukraine finally agreed to pay higher European prices for Russian gas from 2010, after a 20 per cent discount in 2009.

This accord came in the wake of sharp criticism of Ukraine by European leaders and Putin's first official visit to Germany as prime minister, where he presented a more ambitious long term solution to the unending troubles with Ukraine that have left European countries without winter fuel more than once. His proposal involves leading European energy companies forming a consortium with Russia's Gazprom to ensure that Russian supplies reach their destination. "Trust has been damaged," German Chancellor Angela Merkel said after the talks, without specifying who was to blame. "We hope this idea of a consortium has a chance in succeeding."

In Soviet days, there was never a reliability problem in dealing with Moscow, so what's the problem now that we are all one big, happy, capitalist family? Quite simply, Ukraine refuses to pay market prices for its own gas imports from Russia, and even stopped paying its gas debt, preferring to steal Europe's gas as it transits Ukrainian territory and create a reserve for its own use, a strange and shortsighted policy to say the least. Whereas in the past, world price fluctuations among the "free nations" were of little concern to Soviet planners, Russian politicians today very sensibly want to extract every last kopeck from trade partners. They certainly will not put up with blatant theft and nonpayment of debts.

But Ukraine is the West's "friend" and would-be member of NATO, while Russia is now the West's "enemy". Still, theft is theft, and the EU is beginning to sour on its eastern friend. Talks on a new association agreement with the Ukraine and on energy cooperation are now on hold. "This is about their credibility in terms of their entire relationship," said an EU official. European Commission President Jose Manuel Barroso warned with uncharacteristic bluntness, "If Ukraine wants to be closer to the EU, it should not create any problems for gas to come to the EU."

Ukraine's bonanza of gas transit fees could disappear as well. Putin raised with Merkel the issue of Gazprom's NordStream pipeline, being built with German energy companies Wintershall and Ruhrgas which would allow Russia to send gas directly to Europe under the Baltic Sea as part of its policy of diversifying its export routes. At present 80 per cent of Gazprom's exports — supplying a quarter of Europe's gas — must transit Ukraine. The best

remedy against theft is to avoid dealing with the thief.

But in the meantime, EU and Russian officials are still pressuring Ukraine for an acceptable way to monitor gas supplies. Russia wants a 50 per cent share in the Ukrainian portion of the pipeline, as it has with a similar pipeline network through Belarus, which would put an end to the pilfering, but Ukraine refuses. Thus Putin's idea of a compromise international consortium, with Russia's involvement, to manage the pipeline, a proposal quickly approved of by Merkel. She has an election coming and Ukraine's defiant anti-Russian stance — and its shenanigans — do not impress potential voters, however much they may please Washington.

Hardest hit in early January were Bulgaria, Slovakia, the Czech Republic, Hungary, Bosnia, Serbia, Slovenia, Croatia and Macedonia during an especially cold winter spell. But the fractious 27-member EU, with its latest additions — the Polands and Croatias — is not amenable to making big deals with Russia in the common interest. Anti-Russian rhetoric is a big vote-getter for the new guys on the block, and it is no surprise Putin chooses to bypass the toothless EU and speak to Germany directly.

The factors leading up to the gas war are well known. On 2 October, the Russian and Ukrainian prime ministers agreed to switch to market prices in the business between their gas companies — Gazprom and Nafotgaz — with the Russian side allowed to sell directly to end users in Ukraine. In late November Kiev stopped payment of pending debts, making a new gas deal for 2009 impossible. Russia has been heavily subsidising Ukraine, buying from Central Asian producers at \$375 per 1,000 cubic meters and selling to Ukraine at \$179.5. It has been more than generous in easing Ukraine's transition to market prices, accepting a gradual increase to \$250 for the 2009 contract. Based on 2008 sales, Gazprom lost \$12 billion by selling gas at a subsidised price to Ukraine and had to ask for a bailout from the Russian government.

With no contract for 2009 in place, Moscow was forced to cut off the gas supplies to Ukraine on 1 January. Ukraine retaliated by refusing to allow the transit of Russian gas to Europe and using gas destined for the European market to create a gas reserve of its own at no cost, enough to last six months even if Russia cuts off all supplies.

Ukraine pleads its coffers are bare, which is no doubt true. Its industrial production sharply declined in November and GDP is forecast to contract by 10 per cent in 2009. It just accepted a \$16.4 billion loan from the IMF. Chief Economist of the European Bank for Reconstruction and Development Erik Berglof recently warned that the IMF package might not suffice: "Ukraine is heading toward a twin currency and banking sector crisis that could well bring down most of the economies of Eastern Europe." However, the IMF, no friend of Russia, also argues that Ukraine could easily solve its debt by transferring partial ownership of the pipeline to Gazprom, the obvious solution, which Merkel surely approves of as well. Russia is a reliable partner as both she and the IMF know perfectly well, but justifiably balks at being robbed by an ungrateful neighbour.

The missing link in this tedious and unnecessary "crisis" is the meeting Ukrainian President Viktor Yushchenko had with US officials in mid-December, where he signed a strategic partnership agreement that included a clause on energy cooperation. Ukraine's refusal to pay its debts or negotiate joint control of the pipeline with Russia were no doubt part of this agreement. This trail of events was not lost on the Russians. Medvedev openly blamed the

US for the shutoff, saying Ukraine 's actions were directed from Washington . Editor-in-chief of Russia in Global Politics Fedor Lukyanov said, “ Ukraine chose a tactic of deliberately creating a crisis through its rejection of talks and agreement, with the expectation that ultimately any major disruption of gas deliveries to Europe would hurt Gazprom’s reputation as a reliable energy partner. Everything that has happened after 31 December seems to me a delaying tactic. We are losing not a mere propaganda war but a real gas war. It is not accidental that countries that have excellent relations with Russia such as Greece, Hungary and Bulgaria, which are among our main European partners, are experiencing the worst difficulties.”

Yushchenko has played the anti-Russian card to the hilt since his suspicious “Orange Revolution”, financed by US government-funded “nongovernmental” organisations, amid accusations that he was poisoned by KGB (excuse me, FSB) agents. He has presided over a Wild West “democracy” since then, which has little to show for itself beside his failed attempt to push a divided Ukraine into NATO and his disastrous support of Georgia’s mini-war last summer, for which he provided some rusty tanks, a scandal which is still smoldering. According to a recent poll conducted by the Swedish International Development Cooperation Agency, 84 per cent of Ukrainians feel that things are going seriously wrong in their country, with 49 per cent calling it “critical and explosive”. Analysts do not rule out Ukraine sliding toward authoritarian rule.

Like the war in South Ossetia last summer, this latest “crisis” has “Made in the USA” written all over it, like the US-approved invasion of South Ossetia by Georgia, a trap set by the Cheneyites to snare both the Russians and the new administration in Washington. They even concluded a last-minute security pact with Georgia on 9 January which will most probably lead to a permanent US military presence in the Caucasus. The Kremlin has so far been cautiously optimistic about a fresh start to US-Russia relations under Obama, but he has his own Russophobe advisers, Robert Gates and Zbigniew Brzezinski, so the omens are poor for a turn-around.

Just as the US used the Georgian war to depict Russia as expansionist, and to push its unpopular missile defence project on Europe, it appears to have a hand in this made-to-measure energy crisis, yet another link in its latest Cold War, which is almost sure to proceed despite the cosmetic change of power in Washington this week. US media did its part, with the Washington Post exhorting the Europeans to “grasp the real message of this cold week”, as “Mr Putin’s regime plainly intends to use Europe ’s dependence on Russian energy to advance an imperialist and anti-Western geopolitical agenda.”

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