



Original research article

Natural gas and the Russia-Ukraine crisis: Strategic restraint and the emerging Europe-Eurasia gas network



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ABSTRACT

This article explicates the puzzle of strategic restraint in contemporary European-Russian gas relations. The first and second sections compare and contrast successive gas wars since 2006, detailing respective dimensions to restraint and costly paralysis experienced by upstream, downstream, and transit states alike. The third part presents an alternative understanding of energy power politics rooted in social network analysis. It probes the validity of new forms of power, influence, and vulnerability in Russia's evolving gas relations with Europe, as derived from betweenness centrality among emerging infrastructure hubs and the quality of corporate alliances across subregions of Central Europe. This includes cursory examination of the credibility and costliness of disruption related to the flexibility and diffusion of gas relationships into/across the northern and southern parts of Central Europe, as well as the social capital within Gazprom's corporate eco-system that bound Russia's lasting prominence as a supplier in these subregions. The final section identifies practical guidelines for transcending the current knotty predicament to stabilize commercial trading and peaceful U.S./Euro-Russian energy governance

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The ongoing crisis in Ukraine again foisted natural gas diplomacy to the forefront of great power politics. Successive threats and actual disruptions of Russian gas supply from late 2013 through 2015 seemed to epitomize Moscow's trump card for coercing Kyiv and cowing Europe. At the time, the fear of a protracted cut-off was palpable among Western policymakers and commentators—stoked by precipitous 80% prices hikes, Kyiv's lasting vulnerability while under siege, and Russian President Putin's open letter threatening to cut off deliveries to Ukraine and Europe. The anxiety surrounding the prospects for a physical cut-off of Russian gas galvanized support for an EU Energy Union to harmonize, integrate, and diversify the internal market; as well as prompted U.S. congressional legislation aimed at expediting U.S. liquefied natural gas (LNG) exports to demonstrate immediate resolve and limit long-term damage to European energy security.¹

For some, what was at stake was more than Ukrainian and European energy security. As was the case during the 2006 and 2009 gas wars, the asymmetric trading relationships, political salience,

war-experts-say; Jan Kalicki, Peace and Energy in Ukraine... and Russia, *Kennan Cable* 6: (March 2015); Margarita M. Balmaceda, Will Cheap Russian Gas Save Ukraine? *Problems of Post-Communism* 61:2 (March-April 2014), pp. 61–67; Jason Bordoff and Trevor Houser, American Gas to the Rescue? *Columbia/SIPA Center on Global Energy Policy* (September 2014), <http://energypolicy.columbia.edu/sites/default/files/energy/CGEP-American%20Gas%20to%20the%20Rescue%3F.pdf>; Paul Kirby, Russia's Gas Fight with Ukraine, *BBC News* (October 31, 2014), <http://www.bbc.com/news/world-europe-29521564>; and Agnia Grigas, Legacies, Coercion, and Soft Power, Russian Influence in the Baltic States, *Chatham House Briefing Paper* (August 2012), https://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Russia%20and%20Eurasia/0812bp_grigas.pdf. Although recognizing mutual commercial interests in averting a protracted crisis, others were not sanguine that the Russian leadership could rise above political acrimony or narrow strategic ambitions to avoid a gas war. See Sergei Aleksashenko, Is There a Solution, *Carnegie Moscow Center* (July 22, 2014), <http://carnegie.ru/commentary/?fa=56209>; and Leon Aron, The Political Economy of Russian Oil and Gas, *American Enterprise Institute for Public Policy Research* (Spring 2013), <http://www.aei.org/publication/the-political-economy-of-russian-oil-and-gas/>. On how such fear fueled congressional acts to expedite U.S. LNG exports, see especially Brittney Lenard and Yevgen Sautin, Time for Natural Gas Diplomacy, *National Interest* (4 February 2014), at <http://nationa-linterest.org/commentary/time-natural-gas-diplomacy-9825>; and Mackubin Thomas Owens, Using Energy for Geopolitical Leverage, *Washington Times* (October 24, 2013).

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¹ On the perceived credibility and potency of Russia's threats to cut-off supply and wield the gas weapon among Western policymakers, experts, and commentators during this period, see especially Paying the Price, *The Economist* (April 29, 2014), <http://www.economist.com/blogs/easternapproaches/2014/04/donald-tusks-energy-union>; Alan Neuhauser and Paul D. Shinkman, Europe, Russia Ensnared in 'Energy Cold War,' *U.S. News and World Report*, (April 11, 2014), <http://www.usnews.com/news/articles/2014/04/10/europe-russia-ensnared-in-energy-cold->

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resentment of U.S. infringement, and state control over the gas monopoly, Gazprom, seemed to present the Putin regime with both strong motivation and a credible resource nationalist stranglehold to advance a broad neo-imperial agenda. Concerns about the geopolitical consequences of Moscow's market power extend beyond Russia's controlling development of energy fields off the coast of Crimea or exerting pressure on rival Eurasian energy suppliers. They include fears that the Kremlin will exploit the coercive potency of the gas weapon to stem the strategic drift of energy dependent former satellites, manipulate divisions among unevenly dependent European consumers, play-off Europe and Asia with construction of pipelines capable of delivering from similar fields, and buttress a "hybrid" approach to warfare in a run-up to Cold War 2.0.² Viewed in this light, Moscow's abrupt dumping of the much-maligned South Stream pipeline in December 2014 and subsequent ambivalence in pursuing an alternative route through Turkey – in favor of expanding gas sales directly into Germany without assuming obligations for building new pipelines on European soil—constitutes a deft strategic maneuver. In addition to bypassing Ukraine and bolstering Gazprom's competitive advantage at landing gas in established German and Czech markets, Nord Stream II threatens to displace future delivery of U.S. gas and to stoke rivalry among some of Europe's largest customers as they are constituting an Energy Union and building out the Southern Gas Corridor, all while remaining at the margin's of the EU's regulatory reach.³

For others, the tectonic shift in the global gas landscape—capped by the burgeoning liquefied natural gas (LNG) trade, changing political geography of supply and demand, and booming unconventional production in North America—fundamentally reduces Moscow's coercive gas leverage and augurs well for more aggressive responses to Russia. Sensing propitious market conditions and that Moscow now has much to lose from a gas slowdown amid depressed oil prices and a listing economy, Western pundits and policymakers herald the merits of mounting a strategic counter-offensive. The latter includes slapping comprehensive sanctions on Russia's energy sector, forging European collective purchasing power and sub-regional cooperation, diversifying import routes and suppliers, implementing new strategies for gas storage and LNG, and accelerating transition to a low carbon energy sector to free Europe from Russia's steel umbilical cord.⁴ The EU, in particular, is encouraged to practice "soft power with a hard edge," leveraging the attraction of its gas market and reinvigorated regulatory instruments to induce Gazprom to play by its rules.⁵ Even modest American LNG exports are projected to create the flexible supply needed to tame Moscow's predation among otherwise dependent Baltic states. As put by former U.S. Energy Secretary Ernest Moniz, Moscow's belligerence gives "additional weight to the geopolitical criterion" in U.S. decisionmaking on fast-tracking

LNG exports going forward.⁶ Buoyed by the apparent success of oil sanctions at bringing Iran to the nuclear bargaining table and appalled by Moscow's truculence at reeling in pro-Russian insurgents in eastern Ukraine, a broad consensus among American and European policymakers is coalescing to support a *realpolitik* corrective that includes ratcheting up coercive pressure on Russia's energy sector.

Upon close inspection, however, the contending narratives on energy power politics fail to account for the conspicuous restraint that characterizes the gas crisis that has paralleled the conflict in Ukraine since 2013. This restraint on gas is especially curious. On the one hand, none of the central parties to the conflict acted rashly to provoke a sustained disruption in the supply of natural gas or to otherwise blunder into uncontrolled escalation between 2013 and 2015, even as each wielded natural gas as an instrument of political gamesmanship in acrimonious commercial haggling over prices and volumes. Unlike the gas wars in 2006 and 2009, Russian deliveries to Ukraine and transit onto European markets were not arbitrarily disrupted at the apogee of the recent political conflict. Gas continued to flow through mid-June 2014, notwithstanding the annexation of Crimea, unraveling of political authority in Ukraine, and *de facto* flow of Russian fighters and weapons across the border. The tempered gas diplomacy contrasted starkly with the kinetic dimensions to the "gray zone" conflict in Eastern Ukraine, as well as Moscow's provocative military encounters with U.S. and NATO forces across the globe throughout 2014–2015.⁷ The gas cut-off eventually imposed by Russia occurred after negotiations began, substantive differences narrowed, and (to date) without causing protracted arbitrary transit shortfalls to Europe. As the worst part of winter neared and demand for gas to heat homes mounted, the parties stepped back from the brink in October 2014 to reach temporary agreement on Ukraine's partial debt repayment and prepayment for new Russian deliveries through the end of June 2015.⁸ Similarly, the cessation of Russian supply to Ukraine again in July 2015 marked a pause in the haggling over terms for renewal of the contract, came largely at Kyiv's behest, and was not accompanied by a cut-off of Russian gas transited to Europe. With the aid of EU mediation, the parties reached a second compromise package by October 2015 that renewed gas purchases from Russia (at lower prices) to ensure vulnerable customers in Ukraine and East and Central Europe sufficient stocks through that winter season into early 2016.⁹

On the other hand, the strategic restraint in gas diplomacy has been precarious, seemingly vulnerable to discretionary disruption

² Ryan Maness and Brandon Valeriano, *Russia's Coercive Diplomacy: Energy, Cyber, and Maritime Policy as New Sources of Power* (New York: Palgrave Macmillan, 2015); Fiona Hill and Clifford G. Gaddy, *Mr. Putin: Operative in the Kremlin* (Washington, DC: Brookings Institution Press, 2015); and Michael Rule and Julius Grubiasukas, *Energy as a Tool of Hybrid Warfare*, *NATO Research Paper* 113 (April 2015), http://www.files.ethz.ch/isn/190791/rp_113.pdf.

³ Jean Arnold Vinois and Thomas Pellerin-Carlin, *Nord Stream-2: A Decisive Test for EU Energy Diplomacy*, *Natural Gas Europe* (16 December 2015), <http://www.naturalgaseurope.com/nordstream-2-eu-energy-diplomacy-expert-27171>.

⁴ Robert D. Blackwill and Meghan L. O'sullivan, *America's Energy Edge: The Geopolitical Consequences of the Shale Revolution*, *Foreign Affairs* (March/April 2014); R. James Woolsey and Anne Korin, *How to Hit Putin Where it Hurts*, *Wall Street Journal* (May 14, 2014). See also U.S. State Department International Security Advisory Report, *Report on Energy Geopolitics: Challenges and Opportunities* (July 2, 2014).

⁵ Andreas Goldthau and Nick Sitter, *Soft Power with a Hard Edge: EU Policy Tools and Energy Security*, *Review of International Political Economy* 18:23 (August 2015).

⁶ Zach Coleman, Energy Secretary Ernest Moniz: Geopolitical Concerns will Matter in Natural Gas Exports, *Washington Examiner* (March 21, 2014), <http://www.washingtonexaminer.com/energy-secretary-ernest-moniz-geopolitical-concerns-will-matter-in-natural-gas-exports/article/2546062>. On the projected strategic impact of U.S. gas exports, see especially Bud Coote, *Surging Liquefied Natural Gas Trade: How US Exports Will Benefit European and Global Gas Supply Diversity*, *Atlantic Council Report* (January 2016), http://www.atlanticcouncil.org/images/publications/Surging_LNG_Trade.pdf.

⁷ For summary of Russia's provocative military action following the annexation of Crimea, see especially Thomas Frear, Lukaz Kulesa, and Ian Kearns, *Dangerous Brinkmanship: Close Encounters Between Russia and the West in 2014*, *European Leadership Network Policy Brief* (November 2014), at <http://www.europeanleadershipnetwork.org/medialibrary/2014/11/09/6375e3da/Dangerous%20Brinkmanship.pdf>, accessed November 15, 2014; and Roger McDermott, *Myth and Reality- A Net Assessment of Russia's 'Hybrid Warfare' Strategy Since the Start of 2014 (Part One)*, *Eurasia Daily Monitor* 11:184 (17 October 2014), <http://www.jamestown.org/single/?tx.ttnews%5bttnews%5d=42966&no-cache=1#VQDyjGTF-tt>.

⁸ For summary, see Adam N. Stulberg, *Out of Gas: Russia, Ukraine, Europe, and the Changing Geopolitics of Natural Gas* 62:2 (2015), 112–130.

⁹ Although deliveries between Russia and Ukraine were stopped again at the end of November 2015, both parties vied to take credit for initiating the disruption and confined their claims to commercial issues.

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