

Russian Energy Pressure Fails to Unite Europe

Keith C. Smith

- In the year since the “wake-up call” provided by Russia’s cut-off of gas supplies to Ukraine in January 2006, Europeans have made modest progress in dealing with their growing dependence on Russian energy.
- Divisions continue, however, among EU member states, leaving Europe more susceptible to pressure from a Russian government that uses its huge energy resources to maximize its foreign policy leverage.
- The European consumer will probably continue to pay higher energy prices as a result of Russia’s monopoly on gas and oil shipments from Central Asia.
- The EU countries could take a number of additional steps to reduce the risks of dependence on Russian energy. The EU’s readiness or failure to adopt these measures will constitute an important political test of whether Europe will successfully cope with growing Russian control over its energy markets.

When Gazprom, Russia’s monopoly natural gas trading company, cut off supplies to Ukraine and Georgia in January 2006, the move was widely seen in Brussels as a clear warning of Moscow’s willingness to use its energy resources to exert political influence over the countries of Europe. Twelve months later, almost to the day, Moscow drummed home the significance of the anniversary by shutting off oil supplies to Belarus for three days, causing ripple effects on supplies to Western Europe. Speaking in her capacity as president of the European Union for the first six months of 2007, German chancellor Angela Merkel condemned the move as “not acceptable.”

Merkel’s condemnation of Moscow’s sanctions against Belarus in a dispute over prices, duties, and pipeline control may presage a greater German wariness of excessive energy dependence on Russia. But it also highlighted the impotence of the EU in preventing Moscow from using its vast energy resources as a political weapon, particularly in its “near abroad.”

Although Russia’s action against Ukraine at the beginning of January 2006 led to a brief flurry of activity by EU leaders, there have so far been few signs of the emergence of an effective Europe-wide policy that would reduce dependence on Russian energy. The European Commission’s new energy proposals, announced on January 10, 2007, are a step

in the right direction. They call for Europe to embrace a low-carbon economy with increased energy efficiency, greater use of renewable energy, and lower emissions. Even if the proposals were adopted by EU governments, however, they would have little direct effect on Moscow’s energy relations with Europe. The new policies would not oblige Moscow to adopt more competitive and transparent energy transportation and investment policies.

On the contrary, European countries continue to forge bilateral deals with Russia, with little consideration for the interests of their fellow EU members. The Western European members of the old EU 15 have shown scant concern over Russian pressure tactics against the new EU members in Central and Eastern Europe, throwing into question whether EU solidarity regarding energy supplies extends to the new member states.

Most prominently, the EU refused to support an attempt by Poland to make Russian ratification of the Energy Charter Treaty, signed in 1994, a condition for a new EU-Russia Partnership and Cooperation Agreement. The Energy Charter Treaty is designed to promote east-west industrial cooperation by providing legal safeguards in areas such as investment, transit, and trade. The counterargument given to the Poles was simply that Russia is unwilling to ratify the charter. This weak EU response will only embolden Moscow

to continue to engage in nontransparent and noncompetitive energy industry practices.

Moscow has profited from Europe's disarray by moving rapidly in the months since the confrontation with Ukraine to cement greater long-term European dependence on Russian energy, particularly natural gas. The EU's dependence on imports is forecasted to grow from its present level of more than 40 percent of total gas consumption to as much as 80 percent by 2020, while the share of Russian gas in the EU's total gas imports could rise from about 26 percent to between 40 and 50 percent over the same period if Russian production capacity permits. This high level of energy dependence may lead to increased Russian political influence in Europe.

Russia has also continued its divide-and-rule tactics toward European governments. Since January 2006, Moscow began negotiating separate deals with energy companies from Germany, France, Italy, Hungary, Serbia, Slovakia, and Denmark that could undercut Europe's efforts to build additional pipelines to bypass Russia's near monopoly of supplies from Central Asia. Moscow has sharply increased natural gas prices for Ukraine, Georgia, Armenia, Belarus, and Moldova and is increasing Russian control over Europe's gas pipeline systems. In most cases, Moscow argues that it is simply increasing prices to market rates by removing wasteful former subsidies, a position that is hard for the EU to contest. But too rapid a move toward vastly higher market rates is bound to cause disruption in customer countries.

Most recently, at the end of 2006, Belarus angrily succumbed to Russia's demands to double gas prices and take control of half the country's pipeline infrastructure, despite Belarus's close political links with Moscow. Alexander Lukashenko, the president of Belarus, accused Moscow of taking "unfriendly steps" against his nation and then prolonged the dispute by announcing a duty of \$45 a ton on Russian oil transported through Belarus, provoking the Russian cut-off of supplies. Slovakia is now coming under intense pressure to cede ownership of its key gas and oil pipelines and refineries to a Russian company. If

that were to happen, Gazprom and Transneft (Russia's monopoly transporters of piped gas and oil) would gain even tighter control over energy supplies to Europe.

Also in December 2006, after months of pressure, Moscow unilaterally forced Shell Oil Company to cede majority control of the Shtokman II field to Gazprom, and the British-Russian oil company TNK/BP is being obliged to follow suit with its large Kovytkva field. Meanwhile, France and Italy have agreed to long-term gas contracts that will give Gazprom greater access to, and control over, the two countries' internal markets.

Contrary to earlier hints from Berlin that the new German government would be more sensitive to the energy needs of Central and Eastern Europe, Merkel has given the green light to the highly expensive Northern Europe Gas Pipeline (NEGP) beneath the Baltic Sea, negotiated between her predecessor Gerhard Schroeder and President Vladimir Putin, much

to the anger of neighbor and fellow EU member Poland, which the pipeline will bypass. The Baltic Sea project will cost at least eight times as much as the alternative Yamal II pipeline, which would have gone through Poland.

In spite of the good intentions of the Commission, the larger member countries continue to resist submitting to a common EU energy policy. In mid-November, EU foreign ministers failed to agree on a common approach to Russian energy—just as reports once again surfaced that Moscow may seek to set up a cartel among natural gas producers similar to the Organization of the Petroleum Exporting Countries (OPEC) oil cartel.

Most analysts say it is unlikely that Moscow would succeed in such a venture, which would probably have to include Algeria, Qatar, Libya, the countries of Central Asia, and perhaps Iran. Nevertheless, a confidential study by North Atlantic Treaty Organization (NATO) economic experts takes the threat seriously and has warned that if Moscow were to succeed in setting up such a cartel, it would want to use it for political as well as economic purposes.

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All these developments are leading an increasing number of political leaders to ask whether Europe has already become too dependent on Putin's "managed democracy" and the increasingly state-owned energy resources that Russia sees as its chief instrument for reclaiming world-power status. These concerns raise two questions, one short-term, one long-term.

The first is whether Europeans have the political will to counter their increasing dependence on Russia in the immediate future. The second is how long Europe, if it gets hooked on Russian energy, can actually rely on the supplies it needs from Russia in the more distant future. While the Russians want secure markets in Europe, Europeans want reliable energy sources stretching decades into the future—which is why they are competing among themselves to sign long-term contracts.

There are, however, growing indications that Russia will be unable to meet European, Chinese, Japanese, and U.S. expectations for big increases in energy imports unless Moscow offers foreign investors significantly greater participation in the exploration and development of new gas and oil fields. In any case, for the next 5 to 10 years, Russia will be able to meet its gas contracts in Europe only by monopolizing the exports to Europe of gas from Kazakhstan, Turkmenistan, and Uzbekistan.

The reality is that Russian oil and gas exports are not growing at the pace they were just three years ago, and investment in Russian exploration and development has declined. This may not be too worrying to Moscow, which wants to keep prices high by conserving its resources, maintaining tight supplies, and asserting control over Central Asian exports.

Moscow Shows Its Muscle

The Putin government has made no secret of its intention to use its energy export power to regain the kind of worldwide influence Russia exerted during the Cold War, especially in the countries of its so-called "near abroad" that used to be under Soviet control. Not all of Moscow's energy deals are part of a grand plan. Many reflect individual efforts to grab riches in the still often chaotic conditions of Russia's postcommunist economy. Nevertheless, Russian

officials have confirmed that Putin sees energy as Russia's ace card, and without countervailing Western pressure on Moscow to adhere to competition and antimonopoly rules, it seems inevitable that the Kremlin will be able to increase its hold over energy markets and energy facilities in Europe.

From the Kremlin's perspective, it is smart to preserve Russia's pipeline monopolies and nontransparent practices as long as the EU does not use its economic leverage to try to oblige Moscow to comply with the Energy Charter Treaty, including the Transit Protocol. The protocol would oblige Russia to open its pipeline system to European companies buying Russian oil and gas, thus increasing competition and reducing energy costs to consumers. The Putin government is instead pressing quickly ahead with its own energy initiatives,

aware that in the medium term it may not be able to count on Europe's continuing unwillingness to implement a common energy policy or to enforce EU anticompetition rules against the increasingly dominant Gazprom and Transneft.

Moscow clearly believes that the current tight world energy market and high prices give it enough leverage over the West to continue its current approach, including a refusal to reciprocate its growing access to the European market, without facing a loss of market share in Europe or investment opportunities in downstream facilities in the West. So far, the Kremlin's analysis has been on target and is likely to remain so as long as the West fails to adopt an energy strategy that causes the Kremlin to modify its policies. Russia consistently refuses to allow Western companies the same access to Russian facilities that Russian state energy companies already enjoy in Europe and the United States.

In 2006, Moscow objected to British criticism of Gazprom's desire to buy Centrica, the United Kingdom's largest gas company. Gazprom's CEO, Alexei Miller, warned EU ambassadors in Moscow that Russia could divert natural gas now going to Europe to China and the United States if the company were not allowed more freedom to buy European downstream energy facilities. Miller did not offer

Europe the same access to Russian energy markets, and his remarks were supported by a similar threat from Putin.

Moscow, nevertheless, denies that it is using its energy resources to exert pressure on European governments and has argued that the decrease in gas supplies to Western Europe during the cut-off of gas to Ukraine in January 2006 was the result of Ukrainian “theft.” In its dispute with Belarus in January 2007, Russia accused Belarus of “stealing” oil from the pipeline that crosses the country.

Moscow has been somewhat kinder to Ukraine since a new, pro-Moscow government was formed in August under President Viktor Yanukovich, who is willing to allow Russia more control over the country’s energy infrastructure. After months of negotiations, Russia and Ukraine agreed in October on a gas price of \$130 per 1,000 cubic meters. The new government clearly received at least a temporary price break. Significantly, however, the deal was only for 2007, and it was made clear that future prices would be held hostage annually to Ukrainian “behavior” on political issues important to Moscow.

In addition, the change of government in Kiev may have thwarted an EU attempt to circumvent Russian dominance of its energy supplies by building pipelines that bypass Russia. The Yanukovich government has now agreed with Moscow to “defer” consideration of a long-planned pipeline between the Ukrainian cities of Odessa, on the Black Sea, and Brody, near the Polish border. The EU had hoped to use this route to transport oil from Kazakhstan to Western Europe outside Russian control. Also, the infamously nontransparent RosUkrEnergo energy trading company is now more solidly entrenched as the official intermediary for selling Russian and Central Asian gas to Ukraine. The

new Ukrainian minister of energy, Yuri Boiko, is one of the founders of RosUkrEnergo and continues to support its monopoly position.

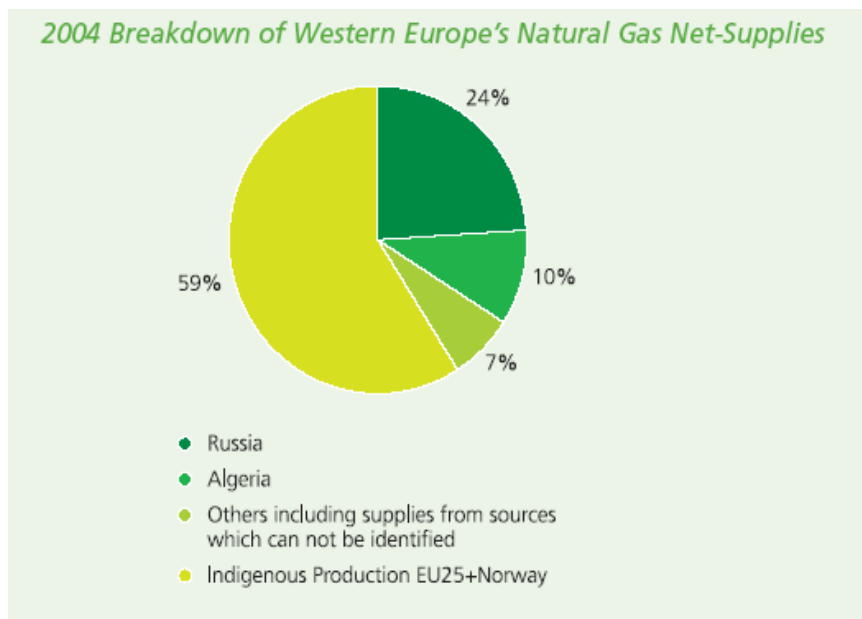
There is, however, little stomach in Brussels or in major European capitals to weigh in on the side of Ukraine, particularly now that allies of the pro-Russian former president Leonid Kuchma are back in power. And it is not just a question of Ukraine. During the January 2006 crackdown on Ukraine, Russia also suddenly cut off gas and electricity supplies to Georgia, allegedly because of terrorism. The move, during the height of an extremely cold winter, elicited

almost no reaction in Europe. Moscow was right in calculating that an energy cut-off to Georgia, which did not directly affect Western Europe, would cost it nothing in terms of Western European support. Since the summer of 2006, Georgia has again come under energy pressure from Russia.

Following the disruptions in supplies to Ukraine and to

Georgia, José Manuel Barroso, the president of the European Commission, made a well-publicized trip to Moscow to meet with Putin. Barroso’s goal was to convince Putin that it was in everyone’s interest for Russia to ratify and implement the Energy Charter Treaty, including the Transit Protocol. Barroso returned to Brussels empty-handed.

In March, a high-level team of EU energy specialists met with their Russian counterparts in the Russian resort of Sochi with essentially the same mission as that of Barroso. The Russians again made it clear that they were unwilling to yield on the protocol and that they expected even greater freedom to invest in Europe’s energy infrastructure—without granting similar access to Russian oil and gas fields, pipelines, and refineries. To drive home the point, the Russian Duma subsequently signed into law a bill mandating



Source: <http://www.eurogas.org/>

the pipeline monopoly of Gazprom, even when the company ships liquefied natural gas (LNG) abroad. The EU's overtures turned out to be counterproductive. Although the Russian government had previously adopted an ambiguous position, prodding by the EU provoked Moscow into a clear statement that it had no intention of ratifying the charter.

The EU Commission appears to be committed to building a more open, competitive energy market in Europe. Action against Russia's noncompetitive practices inside the EU, however, has taken a back seat to internal EU differences over takeover battles for national energy "champions" involving companies from other member states.

Meanwhile, the monopoly practices of Gazprom and Transneft are not dealt with in the EU's agreement with Moscow over the terms of Russia's pending membership in the World Trade Organization (WTO). The WTO agreement with the EU allows Russia to maintain a substantial trade advantage in industrial goods by keeping its domestic energy prices at a fraction of world market prices. Many analysts believe that the EU accepted the Russian monopolies in return for Moscow's agreement to ratify the Kyoto Protocol on climate change, which allowed the protocol to finally enter into force. In fact, in one sense, the protocol also indirectly benefits Russia, as many EU countries are likely to have to consume more Russian gas if they are to meet emission reduction targets set by the protocol or by successor agreements.

Moscow's denials that its actions are influenced by political as well as commercial motives are also vulnerable to challenge as a result of the strong role of former intelligence officers (*siloviki*) in determining national energy policy. Significant numbers of *siloviki* hold key positions both in the Putin administration and in Russia's energy companies. It is also no secret in Europe that Russian intelligence services use energy companies as cover for operations abroad.

The head of Rosneft is one of Putin's former KGB associates who helped engineer the breakup of Yukos and his own company's seizure of Yukos's most valuable assets. In 1999, Moscow appointed a former officer of the KGB and one of its successor organizations, the FSB, as ambassador to Lithuania, in an attempt to provide behind-the-scenes support for

Lukoil's negotiations with the Lithuanian government in the dispute over the buyout of the Mazeikiiai oil complex by the United States' Williams Company. Before assuming the job, the ambassador had been the FSB's official liaison officer with Lukoil.

Some former intelligence officers are quite progressive in their views. The majority, however, oppose any weakening of the state through the growth of a transparent, independent private sector. They find the idea of a win-win energy deal with a Western company an alien concept. Foreign participation also reduces the chances that insiders can siphon off profit for their personal use. Majority control of a Russian energy production unit by a Western energy company is viewed by most former intelligence officers as a danger to Russian national security. Even the Western managers of TNK/BP are no longer permitted to see their own company's seismic data.

There is a similar desire to extend the control of the Russian state sector beyond the country's borders. Part of the Kremlin's present strategy is to secure substantial gas-price increases for weak neighboring states in the expectation that they will build up large debts, find themselves unable to pay for the gas, and ultimately have to cede control over their domestic pipelines to Gazprom or Transneft to pay for the arrears. This has happened in Belarus, Armenia, and Moldova and is once again taking place in Ukraine. Gazprom's effective monopoly over gas supplies from Turkmenistan, Kazakhstan, and Uzbekistan strengthens Moscow's political leverage in Central and Eastern Europe and substantially increases energy prices in all of Europe.

Germany is Key to Moscow's Strategy

The debate in Western Europe and in the United States over the security implications of greater energy reliance on Russia has resulted in only modest steps to diversify energy sources. EU governments have been more interested in helping their own national companies gain investment access to Russian supplies than in implementing a unified European energy policy. Security concerns are often trumped by business interests, as has happened for example in Hungary, Serbia, the Czech Republic, and Slovakia. Gazprom reportedly has close, nontransparent relations with a network of West European banks, particularly in Germany, Austria, and the Netherlands, and an

increasing number of “European” energy companies are owned by offshore Russian interests.

Without doubt, Germany is the key country in Moscow’s European energy strategy, and Putin has publicly offered to make Germany the hub for most of its gas shipments to Europe. So far, although Merkel has agreed to proceed with the Northern Europe Gas Pipeline under the Baltic, she has reacted coolly to Moscow’s proposal for a “special energy relationship” with Russia. And Moscow’s latest action against Belarus is likely to make her even more cautious. The cut-off of oil to Belarus, she said, “hurts trust and makes it difficult to build a cooperative relationship.”

A parallel pipeline to the Yamal I line that runs through Poland would have been much cheaper for the German consumer. The cost of the NEGP is now estimated at between \$18.5 billion and \$30 billion, compared to \$2.8 billion for Yamal II. The increased costs of the NEGP will be passed on to Western consumers to the benefit of Russian and German gas suppliers and the German banking community.

At the strategic level, enlargement of the Yamal line would have provided greater energy security to Poland and the Baltic states as well as to Germany’s other immediate neighbors. The Russian-German agreement, unless modified, will give Russia’s state-run Gazprom a significant voice in Germany’s domestic energy policies and indirect influence over the gas markets in all of Central and Eastern Europe. Germany could face the same Russian domination of its domestic energy markets that Moscow is now seeking to exert over the newly independent states that only recently emerged from Soviet domination. Once all phases of the NEGP are completed, Germany could well depend on Russia for 80 percent of its total gas imports, against just over 44 percent today.

What’s more, with the recent signing of agreements between Russian companies and BASF, EON, and Ruhrgas, it appears that Berlin will also be supporting Gazprom’s aggressive ownership inroads into German gas and electricity companies. Gazprom’s substantial

ownership position in Ruhrgas will provide it at least a blocking minority in the company’s decisionmaking. By engaging in such independent energy initiatives, Germany has created significant anxiety among Central and Eastern Europeans over how far Western Europe is committed to helping protect their newly won sovereignty.

**Maximum Expected Import
Dependency For Natural Gas Among
Former EU15 Countries**

<u>2003</u>	<u>2010</u>	<u>2015</u>	<u>2020</u>	<u>2025</u>
46 %	59 %	71 %	82 %	87 %

Source: <http://www.eurogas.org/>

From the German viewpoint, however, Berlin’s position may be more understandable. Many Germans are convinced that long-term gas purchase agreements will boost German exports to Russia and help cement Russia’s political and economic ties with the EU, thereby leading the Kremlin to accept

European democratic values and competitive business practices. Increased business with Russia is enthusiastically supported by most of Germany’s business community, Merkel’s natural constituency. Other Europeans, however, particularly those frozen out of the Baltic pipeline system, tend to be more skeptical of Germany’s confidence that its energy relations will moderate Russian policies and are more concerned about the risks.

Central Europe Resents Lack of EU Support

Russian “pipeline politics” date back to 1990, when Moscow interrupted energy supplies to the Baltic states in a futile attempt to stifle their independence movements. The energy weapon was again used against the Baltic states in 1992, in retaliation for their demands that Russia remove its remaining military forces from the region. In 1993 and 1994, Russia reduced gas supplies to Ukraine, partly to force Kiev to pay for previous gas shipments, but also to press Ukraine to cede more control to Russia over the Black Sea Fleet and over Ukraine’s energy infrastructure. More recently, in 2006, Moscow demanded that gas prices to Georgia increase four-fold after a dispute over Georgia’s moves to clamp down on alleged Russian spying.

Belarus, and indirectly Poland and Lithuania, suffered supply disruptions in 2004 as a result of the Kremlin’s earlier efforts to take over Belarus’s gas pipeline

system. From 1998 to 2000, in an attempt to stop the sale of Lithuania's refinery, port facility, and pipeline to the U.S.-based Williams Company, Transneft suspended the flow of crude oil to Lithuania no fewer than nine times.

For many new EU member states such as Poland, Latvia, and Lithuania, and for new democracies such as Ukraine, Georgia, and Moldova, Russian energy dominance and its political consequences are thus old, if continuing, problems. Central and Eastern European attempts to raise this issue in Brussels, however, are still largely ignored. The European Commission's rapid acquiescence to the Russian-German Baltic gas pipeline project in 2005, without a serious policy debate, is likely to have been interpreted by Moscow as implying that EU energy concerns were largely confined to "new Europe." Between 2000 and 2005, the Baltic, Central, and Eastern European countries, eight of which joined the EU in May 2004, were not invited to participate actively in the decisionmaking process, nor were they even consulted regarding the Baltic pipeline deal.

Even though Latvia and Lithuania are now members of the EU, little has been done by Brussels to stop the three-year-old piped-oil blockade of the Latvian port of Ventspils. The blockage is a result of Moscow's determination to install one of its companies as owner of the port facilities. Now, Transneft has informed the Lithuanians that there will be a lengthy halt to oil flows to the refinery at Mazeikiai and the port facilities at Butinge as a result of "repairs" to the pipeline. The alleged need for repairs surfaced shortly after the Lithuanian government announced that it would sell the facilities to the Polish firm PKN Orlen rather than a corporate suitor from Russia.

Almost all of the decades-old Russian pipeline system is in need of repair. It hardly seems a coincidence that only the line to Lithuania has suddenly been singled out for repair. Curiously, independent pipeline specialists from the International Energy Agency, Lithuania, and other Western countries are not being allowed to inspect the allegedly damaged lines. Adding to Lithuanian suspicions was a mysterious fire that broke out at the refinery after the manager traveled to Venezuela to buy non-Russian crude oil. The cause of the fire is still under investigation, but the cost to Lithuania could well be over \$100 million.

Gazprom is also putting pressure on Bulgaria, which joined the EU on January 1, 2007, to break a binding agreement on gas pricing and availability due to remain in force until 2010. So far, there is no sign of intervention from Brussels. Poland, however, has suggested that Bulgaria, as a member of NATO, should put the issue of energy security on the alliance's agenda if the EU continues to ignore it. Central and Eastern Europeans are growing increasingly concerned that, despite their admission into the EU, they are still regarded by Western Europeans as second-class citizens, hidden behind a new "Energy Curtain" that is dividing Europe along the lines of its iron precursor.

How Would the EU Signal a Tougher Approach?

How will it be possible to tell if the EU is beginning to acquire the courage and the sense of solidarity to stand up to the Russian gas juggernaut? The following would constitute important signs that the EU is adopting a tougher attitude:

- An EU decision to enforce its competition and antitrust rules in deals between Russian companies such as Gazprom and individual EU governments, in the same way that the Commission acted against the U.S. companies Microsoft and Honeywell.
- Efforts by the EU to prevent member states from reaching deals with Russia that undercut the viability of EU plans to help construct pipelines from Central Asia that bypass Russia.
- EU action to counter oil disruptions to the Baltic states designed to force these countries into selling their energy facilities to Russian companies.
- EU leadership in building a more secure network of electricity interconnectors between the countries of Western, Central, and Eastern Europe.
- An EU effort to marshal the international banks, including the EBRD and the EIB, to take equity positions in the pipeline systems of Ukraine, Bulgaria, Moldova, and Poland. This would help these countries modernize

their pipelines, provide a “neutral” party to ward off attempts by nontransparent Russian or national companies to take control of the pipelines, and increase competition in gas and oil transportation.

- EU decisions to promote international financing for the proposed Nabucco natural gas pipeline from the Caspian basin through Turkey to Bulgaria, Romania, Hungary, and Austria, which would increase energy security in Central and Eastern Europe, and to push hard with Kazakhstan and Ukraine for the construction of the Odessa-Brody oil pipeline system.
- Efforts by Central and Eastern European countries to improve their security by increasing domestic energy storage, boosting indigenous supplies of gas and oil, and creating a welcoming and transparent environment for foreign investors.
- EU insistence that the opening of European downstream assets to Russian ownership is contingent on Moscow’s implementation of the Energy Charter Treaty and, particularly, the Transit Protocol.

Conclusions

The wake-up calls to the West in Ukraine and in Belarus also provide an opportunity for those who want to see Russia build a modern, democratic state that is linked to Europe by mutually beneficial political and economic ties. Western tolerance of Moscow’s coercive use of energy resources and pipeline monopolies, however, only delays Russia’s development into a genuine strategic partner.

The fact remains that Russia’s ability to maintain gas exports to Europe depends on Gazprom’s monopoly control of gas exports from Turkmenistan, Kazakhstan,

and Uzbekistan, a dependence that is likely to increase in the next 7 to 10 years. Russia’s own domestic energy requirements may increase by 150 percent by 2050. Russia’s ambitions of supplying China with the volume of hydrocarbons that it has stated publicly seem unlikely to be fulfilled, considering Russia’s lack of energy capital and investment and deteriorating energy-sector infrastructure. By discouraging European and other Western investment, Moscow is almost certainly making the problem worse. Left to themselves, it is unlikely that Gazprom and Rosneft will have the managerial skills, financing, and technology necessary to meet Russia’s export goals through increased domestic production.

There are questions as to whether the Kremlin’s coercive pipeline policy is compatible with WTO membership. Considering past experience with China’s poor WTO compliance, there are good reasons to doubt that Russia will ease its monopolistic pressure on Central Asian gas shipments after it has been admitted to the WTO.

Demanding open and competitive energy policies of Moscow before WTO membership would be wiser than facing the same noncompliance issues experienced in trade relations with China. But the main point that both Brussels and Washington should make to Moscow is that in the long run its energy policy has to be reciprocal, competitive, and transparent.

It is important to try to convince the Kremlin that its resources will be far more valuable if they are opened to international investment, managed transparently, and operated according to the well-founded legal and commercial rules of the international trading system. These arguments will only carry weight, however, if they are backed by strong and unified European action.

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