

News letter

JANUARY 2010

FEATURE STORY

Ukraine Gas Transit: Is Another Gas Crisis Looming in Europe?

Marat Terterov

THE FALLOUT FROM LAST JANUARY

In January 2009 Europe experienced an unprecedented gas crisis, when the Russian state-controlled energy company, Gazprom, initially reduced, and then cut off all gas supplies to its neighbour and largest consumer of Russian gas, Ukraine. The dispute was the longest gas supply disruption on record (January 1-19), and had major implications for European gas consumers since much of Europe is dependant on imported gas from Russia with the overwhelming majority of Russian gas exported to the continent through gas pipelines which transit via Ukraine's territory (up to 80%). Given that this was the third and most significant gas crisis between Russia and Ukraine since January 2006, last January's events have cast a major shadow over European energy security. It should come as no surprise, therefore, that a multitude of voices are presently asking as to whether another gas crisis is looming in Europe this winter?

MARKET CONDITIONS LESS FAVOURABLE FOR CRISIS SCENARIO

Although many industry insiders fore-saw the onset of the gas crisis last January the depth, severity and the day-by-day unfolding of events during the crisis took Europe by surprise. (*Continues p.11*)

IN THIS ISSUE

- **CEJISS News and Events**
- **European Energy Security**
- **Events in Central Europe**

Chronology of the Gas Crisis between Russia and Ukraine

2005/2006

Russia and Ukraine clashed over prices for the first time following the 2004 pro-Western 'Orange Revolution'.

Russian state monopoly Gazprom cut off supplies on January 1 2006, but turned them on again a day later.

Gazprom accused Ukraine of stealing gas from export pipelines. Kiev denied any accusations.

2007

Ukraine's parliament banned the privatisation, sale or lease of gas pipelines, after Russia suggested creating a joint venture.

2008

Gazprom issued statement which said Ukraine had accumulated over \$1.5 billion in debts for supplies in 2007. Supplies halved briefly at the beginning of March.

Supplies were resumed after Naftogaz agreed to pay back the debt.

2009

Gazprom cut off all supplies for Ukraine on January 1. Gazprom proposed to raise the price to \$250 (from \$179). Ukraine was prepared to pay only \$201 and wanted to raise gas transit fees. Gazprom then raised the price again to \$458.

Russia accused Ukraine of stealing gas which was prepared for Europe.

Eighteen countries in Europe experienced supplies disruption after Gazprom cut off supplies.

Source: Reuters

Review of CEJISS Volume 3, Issue 2

CEJISS boasts an archive with wide selection of articles. This section previews four articles that appear in the current edition of CEJISS. Those chosen for review are selected on an entirely random basis. To access the other articles from Volume 3, Issue 2 please visit www.cejiss.org

Understanding Suicide Terrorism: Problem Solving and Critical Theoretical Approaches

Tanya Narozhna and W. Andy Knight

How can one explain the actions of suicide terrorism? While the problem of suicide terrorism has attracted much significant scholarly attention, the problem solving approach to this subject which has traditionally been applied is somewhat limited in perspective in terms of the problem and its solutions. In this article Narozhna and Knight draws on Robert Cox's distinction between the problem solving and critical theories to demonstrate that academic engagement with suicide terrorism has, thus far up till now, been largely overdetermined by an instrumentalist approach. The authors dismiss these rationalist problem solving analysis approaches to suicide terrorism, which they view as inherently limited because 'it is inextricably linked to the political agenda's of dominant states'.

Instead, Narozhna and Knight adopt a critical theory approach and offer a fresh and important insight into the problem of suicide terrorism. Offering this critical theory perspective the author provides a different explanation of suicide terrorism as a problem of the socio-political complex as a whole.

Rethinking EU-Russian Relations: 'Modern Cooperation or 'Post Modern' Partnership?

Scott Nicholas Romaniuk

What factors best explain cooperation between Russia and its EU neighbours since the collapse of the Cold War, what factors prevent and limit this cooperation and why is EU-Russian relations so important for the EU?

In trying to answer these questions and analysing the dimensions of EU-Russian relations, the author Scott Nicholas Romaniuk rejects more traditional neo-liberal and neo-realist interpretations describing them as 'insufficient for reflecting on the complex processes of change in EU-Russian relations'. Instead, Romaniuk adopts a constructivist framework and provides an alternative perspective to matters in EU-Russian relations. The author argues that energy interdependence, geographical proximity and historical ties all impact on the relationship but also that it is not just conflicting interests but rather norm based tensions that paradoxically arise in the EU-Russian cooperation. These tensions emerge as a result of the different nature of the partners – Russia as a self interested modern state and the EU as a post modern actor – and prevent the partners from further rapprochement.

The article also looks at the negotiations process over a new Partnership and

Issue Index

[01]

Ukraine gas crisis timeline

[02]

Review of the CEJISS November Issue

[03]

Top Ten CEJISS 2009 articles

[04]

CEJISS news and events

[06]

Expert's Corner: Dr. Yuri Fedorov

[11]

Feature Story Continues

Cooperation Agreement between the EU and Russia in the context of the simmering Russo- Georgian conflict and provides a valuable insight into why there are such great difficulties with further rapprochement

Continuity and Change

The US Foreign and Security Policy with the Accession of Barack Obama

Nik Hynek

In this article, Nik Hynek looks into and compares the first 7 months of Obama's Foreign and Security policy with the 8 previous years under the two George W. Bush administrations and uncovers elements of both continuity and change.

As a result of the transition of power the author follows the continuity and change in the key issues of United States Foreign and Security Policy including the stabilization campaign in Iraq and Afghanistan, issues in US-Russian relations in the context of the control of nuclear disarmament and missile defence and the issue of rogue states such as Iran and North Korea. The author evokes words of caution for those predicting wholesale changes under the Obama administration arguing that such a conclusion must necessarily be rejected as reductionist or misleading. However in the latter part of the article Hynek points out several shifts associated with the change of the administration the most fundamental transformation being the change in the conception of character of the international system and the practical politics connected with this.

State Failure and Security in the Post-Westphalia Era

Natalia Piskunova

According to the author Natalia Piskunova current trends in International Relations suggests that challenges to the international system are of a 'Post-Westphalia' character. This begs the question how does state failure influence security in a post- Westphalia environment?

For Piskunova new security challenges are caused by the gradual decline of the state as the only authoritative player in International Relations. The result of this is that security, long considered the classic domain of state prevalence is now falling into the hands of new actors. Thus, in order to prevent tragedies resulting from weak or failing states it is necessary to scrutinise the links between state failure and security.

The preliminary hypothesis of this article is that the modern security configuration in underdeveloped regions poses a challenge to governance. The analysed case is Somalia and this reflects a growing need for realistic assessments to adequately view patterns of governance in underdeveloped countries in underdeveloped regions.

CEJISS Editorial Board Welcomes New Members

In this section you will find some background information on new members of the CEJISS International Advisory Board (IAB), Editorial Board (EB) and our new Honorary International Advisory Board Chair. Currently IAB and EB each contains 17 members. In order to maintain the highest standards of quality CEJISS constantly expands its academic boards by bringing well-known and trusted experts, in their perspective fields, onto our boards.

Background



Benjamin Barber

BENJAMIN BARBER JOINS CEJISS AS THE HONORARY INTERNATIONAL ADVISORY BOARD CHAIR

CEJISS is delighted to welcome Benjamin R. Barber to the role of honorary chair of the CEJISS international advisory board.

Benjamin R. Barber is a Distinguished Senior Fellow at Demos, president and director of the international NGO CivWorld at Demos and also Walt Whitman Professor of Political Science Emeritus, Rutgers University.

Benjamin Barber's 17 books include the classic *Strong Democracy* (1984), the recent international best-seller *Jihad vs. McWorld and Consumed: How Markets Corrupt Children, Infantilize Adults, and Swallow Citizens Whole*.

Barber's honors include a knighthood (Palme Académiques/Chevalier) from the French Government (2001), the Berlin Prize of the American Academy of Berlin (2001) and the John Dewey Award (2003). He has also been awarded Guggenheim, Fulbright, and Social Science Research Fellowships, honorary doctorates from Grinnell College, Monmouth University and Connecticut College, and has held the chair of American Civilization at the Ecole des Hautes Etudes in Paris.

He writes frequently for *Harper's Magazine*, *The New York Times*, *The Washington Post*, *The Atlantic Monthly*, *The Nation*, *The American Prospect*, *Le Nouvel Observateur*, *Die Zeit*, *La Repubblica*, *El Pais* and many other scholarly and popular publications in America and Europe. He was a founding editor and for ten years editor-in-chief of the distinguished international quarterly *Political Theory*. He holds a certificate from the London School of Economics and Political Science and an M.A. and Doctorate from Harvard University.

Background



Yury Fedorov

INTERNATIONAL ADVISORY BOARD - DR. YURI FEDOROV

Dr. Yuri Fedorov is an expert in Russian foreign and security policy. He has written books that deal with Russian-NATO relations, impact of recent elections on US foreign policy and Russia-Europe relations. Some of his publications touch upon the energy security issues, including the Caspian region. Prof. Fedorov is an expert on international security, arms control and political decision-making. His name and numerous publications on strategic offensive weapons, tactical nuclear arms, missile defense, early warning systems are known in Russia and abroad, especially in Europe.

Until January 2006 he was a professor of the Moscow State Institute of International Relations (MGIMO). Since January 2006 he has been Principal Research Fellow at the Royal Institute of International Affairs, London; and also Associate fellow of the Czech Association for International Affairs. Since 2008 he has been living in the Czech Republic and lecturers at the department of International Relations and European Studies, Metropolitan University Prague.

INTERNATIONAL ADVISORY BOARD - DR. VICTOR SHADURSKI

CEJISS is delighted to welcome Dr. Victor Shadurski to its International Advisory Board.

Dr. Shadurski is Dean of the Faculty of International Relations at Belarus State University. He mainly focuses on: Belarusian foreign policy, Belarusian-EU relations and the Baltic Sea Region. He has published extensively on these topics and written books on Cultural cooperation of Belarus with the countries of Central and Eastern Europe, the Foreign policy of France, The History of International Relations and the Baltic Sea Region.

INTERNATIONAL ADVISORY BOARD - DR. MARAT TERTEROV

Marat M. Terterov is an Australian national, originally from Odessa, Ukraine. Terterov holds a PhD (D.Phil.) in the political-economy of the Middle East from St. Antony's College, Oxford University, and has written widely on a diversity of security, energy, and investment topics relating to the former-Soviet Union and the broader Middle East. Initially specialising in political and economic liberalisation in the Middle East, he has advised Egyptian, British and US government agencies in parallel to his PhD work at Oxford. Thereafter, he managed investment promotion communications projects for government agencies in Russia, Kazakhstan, Libya and the Gulf States, before becoming a close follower of energy policy and security in Eurasia. Terterov is one of the rare specialists who works with the Middle East as well as Russia and the ex-Soviet Republics, and has over 10 years of strong exposure to governments and business in these regions. He is a frequent speaker and organiser of international seminars on global security issues and advises a number of clients on investment associated geopolitical risk in Eurasia. He speaks English, Russian and is conversant in Egyptian Arabic.

He recently published an article "Russian Relations with the Gulf Region in a Changing International Geopolitical Environment" in the CEJISS March 2009 edition which can be accessed at: <http://www.cejiss.org/articles/vol3-1/terterov/>

COUNTERPARTS

CEJISS is delighted to introduce a new counterpart: The **Institute for Cultural Diplomacy**, Berlin. Founded in 1999, The Institute for Cultural Diplomacy (ICD) is an international, not-profit, non-governmental organization with headquarters in Berlin, Germany. Over the past decade the ICD has grown to become one of Europe's largest independent cultural exchange organizations. Their programs facilitate interaction between individuals of all cultural, academic, and professional backgrounds, from across the world.

CEJISS welcomes new counterparts. If your organization is interested in becoming a partner with CEJISS please contact Rouba Al-Fattal at: al-fattal@cejiss.org

Board Members

Background



Victor Shadurski

Background



Marat Terterov

Information on current counterparts can be accessed at www.cejiss.org/counterparts

Dr. Fedorov on European Energy security, EU-Russian relations and Central Asia

Cillian O'Donoghue

The January 1st-19th gas crisis had serious implications for European gas consumers and highlighted the level of dependence of Europe on Russian gas supplies. One year on from this episode CEJISS caught up with Yury Fedorov to hear his view on the dispute and the likelihood of a reoccurrence this year (2010). Fedorov also discussed broader issues such as Russian-NATO relations, European Energy security and the importance of the Caspian region.

Central European Journal of International Security Studies (CEJISS):

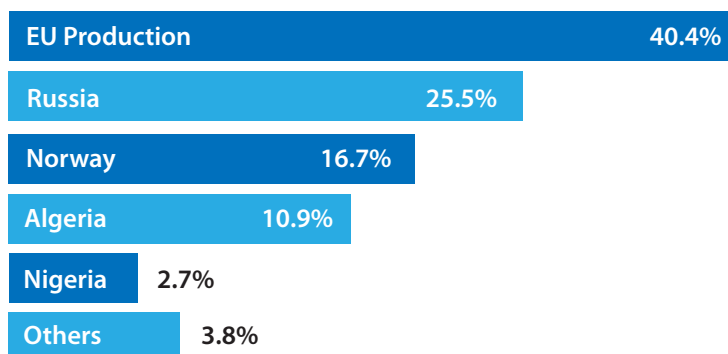
12 months on since the January 1-19 Ukrainian gas crises do you anticipate another dispute occurring again this year? What factors are different this year compared to last?

Yury E. Fedorov: I hope that Europe and Ukraine will avoid a new gas supplies crisis this winter. On January 19, 2009 Russia and Ukraine had signed a long-term agreement on gas supplies and transit. As a matter of fact, this agreement is more beneficial for Russia than for Ukraine, yet I do not think that anybody in Ukraine is able and willing to violate it or to demand its revision and thus initiate a new gas crisis before the presidential elections in the country. I also do not think that Russians will ignite a new crisis in their relations with Ukraine on the eve of the elections because such a move will definitely fuel anti-Russian moods among Ukrainian elites and rank-and-file Ukrainians including those in the regions that are reputed to be “pro-Russian”. However, a new Ukrainian president may demand the revision of this arrangement during the next year and this will initiate a new round of extremely complicated bargaining between Moscow and Kiev. This bargaining process, if it happens, will definitely include, not only economic issues such as prices for gas and gas transit, and ownership of the Ukraine’s gas transportation system, but also political issues like Ukraine’s relationship with the West, and the future of the Russian naval base at Sevastopol. In the worst case scenario, especially if Europe does not support Ukraine, it may result in a new gas supply crisis.

CEJISS: What are the biggest problems that Europe currently faces with regards energy security and what problems do you anticipate in the future? Do you think Europe relies too much on unreliable suppliers for its energy supplies?

Yury Fedorov is an Associate Fellow at Chatham House, the Royal Institute of International Affairs, London Russia and Eurasia Programme

EU Gas Supplies by Country



Source: British Broadcasting Corporation, 2006 Figures
Others include: Lybia, Oman, Trinidad, Qatar, Egypt

YF: Europe's energy insecurity roots lie in the large and growing dependence of the European nations on oil and gas supplies from outside of the continent. Gas import dependence is of special importance as most of the gas is supplied to Europe by gas pipelines. This means that particular parts of Europe are tied to particular gas export regions some of which are potentially (or actually) politically unstable.

Europe's import dependence on Russia creates a special risk because Russia is the largest supplier of oil and gas to Europe. On average, share of Russian gas export in the EU-27 total primary energy consumption was (and is today) between 6 and 7 per cent, while oil (together with petroleum products) exported from Russia provides European states with 10-12 per cent of total primary energy consumption. Thus, Russian supplies have provided the countries of the EU with 18-19 per cent of their total primary energy consumption.

Moscow uses this dependence with a view to increase its political influence in Europe, including by means of establishment of "privileged energy relationships" with particular European countries. Russian ruling elites also want to make it difficult for the EU to pursue a common European energy strategy, liberalize the energy market and diversify sources of energy. Lastly, Russia tries to force European energy companies to provide investments and technologies on terms dictated by Russia.

Another source of highly probable threat to Europe's energy security results from the coming decline in Russia of oil and gas production as early as the middle of the next decade. To avoid this Russia's current energy strategy should be radically changed: all available financial resources should focus on the development of the Yamal gas fields, a more favourable investment climate for foreign energy companies needs to be created, and the energy sector has to be liberalized. However, current Russian policy does not reflect this, if fact quite the opposite.

CEJISS: In your upcoming book 'Lands of Discord: Central Asian and the Caspian between Russia, China and the West' you examine the interaction between Russia, China and the West in Central Asia? What are the main ideas discussed in your book with regards this relationship?

YF: It is no small task to outline the basic ideas of a book of about two hundred pages in a few phrases. To mention only one of these: whether the USA and Europe should be involved in a long-term strategic rivalry with Russia and China for political and economic influence in Central Asia and the Caspian often called a new 'Great game'? The strategic importance of the Caspian and Central Asia countries largely depends on their role as an auxiliary channel of communication with the forces of the international coalition in Afghanistan. Yet we should have in view that Moscow is highly interested in American and NATO's long-term and large-scale involvement in Afghanistan. The Kremlin does not believe in military victory over Islamic extremists in Afghanistan, yet it understands that committing increasing number of U.S. troops to the operation in that country and maintaining NATO's presence there will severely limit American and NATO's strategic capabilities in other regions, including the Black Sea region, the Caspian, Ukraine and other areas of Russian 'privileged interests'.

Undoubtedly, the eradication of threats coming from al Qaeda and the Taliban is of global strategic importance, and an 'early withdrawal' of the U.S. and NATO military presence in Afghanistan could hand the victory to the Taliban. That would pose a danger not so much for the West as for Russia and Afghanistan's closest neighbors in Central Asia, as well for Iran, Pakistan and China. So the onus will be on them to step up their efforts to prevent extremists from entering their territory and to contain other threats posed by the Taliban. The United States and Europe, meanwhile, could intensify their

military, political, economic and technical assistance to all, or some selected Central Asian states and Pakistan, which would be far simpler and cheaper than waging an expensive and perhaps unpromising military operation in Afghanistan itself.

An 'early withdrawal' from Afghanistan would also release military and political resources for solving the truly important problems like those of Iran's nuclear program and preventing Pakistani nuclear weapons from getting into the hands of Islamic radicals, as well as preventing the destabilization of Ukraine, the Black Sea region and some other regions that are targets of Russia's revisionist policy. At the same time, a lot of Russian and Chinese resources will be consumed by protracted and hardly successful involvement into viscous and miry interaction, partly opposition and partly cooperation with Islamic extremists, armed gangs, local warlords, and the like. Let Russia and China be mired into actually or potentially unstable countries ruled by authoritarian dictators most of whom are corrupt and capricious. At the same time the West should develop and pursue a selective policy focused upon a couple of critical countries, above all Azerbaijan and Turkmenistan that are most important for European energy security.

CEJISS: With regards to Central Asia with such an uncertain investment climate in some states in the region, geopolitical battling between the major powers and also tension between political and business interests in the region, the future development of the region's abundant energy resources is very difficult to predict. How do you foresee this development?

YF: Despite visible economic growth during 2000-2007 in Central Asia and the Caspian region basic economic and social problems, as well as ethnic frictions and international tensions in those regions remain unresolved. On the whole, so far the authorities in the Central Asian and Caspian states remain capable of controlling the state of affairs in their countries. However, this capacity is limited and political situation there is unsteady. The fragility of the social and political fabric in the Caspian and Central Asia was highlighted by the global economic crisis. To the utmost it hits the countries critically dependent of labour migrant's remittances, which are Kyrgyzstan and Tajikistan. Were the political and social situation in Central Asian states to deteriorate, with law enforcement authorities and armed forces weakened by divisions and rivalry between competing groups in the leadership and the officer corps, then Islamic militant and jihadist groups could emerge from the underground, develop active political and propaganda operations (Hizb-ut-Tahrir will play the most important role in those activities), and form the nuclei around which extremist opposition movements could crystallize.

One cannot exclude that coming successions in Kazakhstan and Uzbekistan will ignite power struggles within elites resulting in debilitation of the state apparatus including the security sector, which may evolve into large-scale political and social crises in those countries. A conflict among the elites, including different regional and family-based clans may easily develop into massive clashes and draw in itself substantial groups of the population. Opposition forces, relying on the population's dissatisfaction at their wretched living conditions, are likely to use radical Islamic slogans. Should events escalate, these processes could come to involve the army, law enforcement bodies and security services, and lead to civil war.

CEJISS: You recently wrote an article in CEJIIS titled 'Medvedev's Initiative: A Trap for Europe', why did you choose to use the term 'trap' and what are your main reservations about the initiative?

YF: Quite recently, in November 2009 Russian president Medvedev advanced the draft of a European Security Treaty. It confirms that the Russian goal remains the same as it was formulated during the Soviet days, namely

to enfeeble NATO by establishing new international institutions, rules and frameworks that will constrain NATO's activities. Basically, Moscow never even attempted to conceal that its proposal on a new European security architecture was aimed at undermining NATO. For instance, on May 16, 2009 Medvedev announced that "As a military and political bloc NATO is becoming larger and security is becoming more fragmented and more piecemeal. I think that this is bad for everyone concerned, no matter what our negotiating partners say. So we need new approaches... So if we can create a new matrix of relationships, I think it will be effective. In any case, this is obviously better than advancing NATO in every direction. At any rate we are not happy with that idea and we are going to respond to it"

At the same time some Russians' arguments in favour of their proposal may, at the first glance, look attractive to some circles in Europe, especially in the countries that are geographically located far from Russia. In this light I called the Russian proposal of a pan-European security treaty a 'trap'. In particular, if Europe agrees with this Russian initiative Moscow will acquire a legal right to stop any action of the USA, NATO, the EU or individual European state at the pretext that it ensures its own security at the expense of Russia's security. To put it differently, Moscow plans to establish institutions (in the draft of European Security Treaty these institutions called Conference of the parties to the Treaty) able to make mandatory decisions and thus to control the West's activities in defence and security related areas.

CEJISS: How would you describe the state of Europe's current relationship with Russia? What would you see as being the best means to develop this relationship from a European perspective (what policies should the EU pursue)?

YF: It is hardly possible to speak about Europe as whole because different European countries have different views on Russia including perceptions of threat resulting from Russian behaviour. Unfortunately, some European countries forgot about Russia's invasion of Georgia last August (2008) and want to develop a partnership and cooperation with Russia despite Russian occupation of the two Georgian breakaway territories of Abkhazia and South Ossetia. This is likely to only stimulate further Russian expansionism in the Black Sea region or against the Baltic States. In this light I'm convinced that the principal condition of establishment 'normal' relationship with Russia is strengthening European solidarity and security related institutions, NATO above all.

NETWORKS

CEJISS is an active member of the **International Relations and Security Network (ISN)**: one of the world's leading open access information services for international relations and security professionals. ISN was established in 1994 with the mission of promoting knowledge sharing, learning and collaboration. This ambitious aim achieved through building a network of high-quality information resources, providing e-learning consulting, content and technology services and products, hosting security training program for the intelligence community and offering technical, editorial and administrative support to a host of online communities. The ISN is working with the world's leading think tanks, universities, research institutes, NGOs and international organizations.

19th International Youth Leadership Conference

Prague, Czech Republic, January 4-10, 2010

The 19th International Youth Leadership Conference is a week-long youth forum on world politics, international relations and justice. The Conference will be welcoming 100 students from 40 different countries for an open-minded exchange of diverse perspectives on contemporary global challenges.

Web: <http://www.czechleadership.com/index.php>

Prague Conference on the Political Economy

Prague, Czech Republic, March 19-21, 2010

The Prague Conference on Political Economy is an international and interdisciplinary gathering of scholars and supporters of the Austrian School of Economics and political economy of freedom. During two days of the conference, participants will have an opportunity to participate in lectures and debates focusing on economics, history, philosophy and other humanities, and to discuss these issues with leading theorists in the field, both from Europe and overseas.

Web: <http://pcpe.libinst.cz/pcpe10/>

Munich Security Conference

Munich, Germany, February 5-7, 2010

Over the past decades the Munich Security Conference has become the major security policy conference worldwide. Each year it brings together senior figures from around the world to engage in an intensive debate on current and future security challenges. The major aim is to maintain this high international standard and raise its profile still further.

Web: <http://www.securityconference.de/Home.4.0.html?&L=1>

The Berlin International Economics Congress

Berlin, Germany, February 4-7, 2010

The Berlin International Economics Congress (BIEC): An Interdisciplinary Analysis of the Roles of Global Politics & Civil Society in International Economics. The speakers during the program includes leading figures from international politics, economics, civil society, academia, and the private sector. The participants will range from students and young professionals to diplomatic and political representatives.

Web: <http://www.biec.de>

Top 10 CEJISS Articles accessed online*

- 1 Transnational Organised Crime in International Relations
YULIYA ZABYELINA
- 2 Water and the Palestinian- Israeli Conflict
MOHAMMED T. OBIDALLAH
- 3 Securitising Piracy off the coast of Somalia
BILYANA TSVETKOVA
- 4 China's Energy Security and Geo-political interests in Central Asia
LIYAN HU AND TER-SHING CHENG
- 5 The Conflicting rebirth of Multipolarity in International Relations
MILOS BALABAN
- 6 Humanitarian Arms Control, Symbolic Functionalism and the
Concept of Middlepowerhood, NICOLA HYNEK
- 7 The Russian minority in Post Communist Politics: A Case study of
Ukraine, Chechnya and Moldova, SCOTT RAMANIUK
- 8 The Guken Movement: An Islamic Response to Terror as a Global
Challenge, IBRAHIM A. EL-HUSSARI
- 9 European Arrest Warrant: Implications for EU Counterterrorism Efforts
OLDRICH BURES
- 10 The EU-Iran Dialogue in the context of the ongoing Nuclear Crises
PIERRE-EMMANUEL DUPONT

*(September- November 2009)

All articles are available for free of charge at www.cejiss.org

COUNTERPARTS

The **Democratization Policy Council** is a global initiative for accountability in democracy promotion. It was established in 2005 by a group of international affairs professionals from many countries including the United States, the United Kingdom, Bosnia-Herzegovina and Switzerland and has been registered in Washington, D.C.; registration in Europe is underway. DPC is a non-profit organization under U.S. law and contributions to DPC are tax-deductible in the U.S. For details about our mission, please refer to the About page. DPC associates have widely published on a variety of democratization issues. For links to our opinion pieces, please refer to the Publications page.

Marat Terterov is a former-Senior Advisor to the Secretary General of the Brussels-based Energy Charter Secretariat. He has a D.Phil. (PhD) from Oxford University and is also a visiting lecturer at the Brussels School of International Studies (the University of Kent). He is currently Senior Project Manager, Gulf Russian Strategic Relations at the Gulf Research Centre, Dubai.

Ukraine Gas Transit: Is Another Gas Crisis Looming in Europe?

Marat Terterov

Featured Story continued from p. 1

It should come as little surprise, therefore, that in recent weeks political and energy leaders from both countries have been seeking to downplay the likelihood of a repeat scenario this winter. At a recent high level meeting of the Ukrainian and Russian prime ministers, Yulia Tymoshenko and Vladimir Putin, in Yalta mid-last month, both sides acknowledged that “it would be good to go into the new year without any shocks”. In contrast to relations between their two governments, the relationship between the two leaders is outwardly cordial and although such cordiality did not prevent last January’s crisis, Gazprom and Ukrainian state owned gas pipeline operating company Naftogaz finally resolved their dispute through an agreement reached under Tymoshenko-Putin patronage.

Prevailing conditions in the gas trade differ from one year ago and allude to a lesser likelihood of crisis breaking out. Demand for natural gas has fallen dramatically in 2009 within the EU and in Ukraine, reflected by falling gas prices and more abundant availability of liquefied natural gas (LNG). Greater volumes of gas have been pumped into underground gas storage (UGS) facilities in Eastern Europe and Ukraine, although relatively high volumes in Ukraine’s UGS facilities did not prevent the crisis last January. Both the EU and Ukraine have imported markedly less Russian gas in 2009.

ALL SIDES SEEKING TO AVOID A REPEAT OF LAST JANUARY

Indications from the Putin-Tymoshenko Yalta meeting last month suggest that Gazprom is acknowledging Ukraine’s overall weak domestic economic condition, and new reduced gas supply volumes for next year are currently being negotiated. Also the tone from Moscow is largely one of crisis avoidance, not in the least due to the fact that in the prevailing low (gas) price and reduced (gas) demand environment, Gazprom stands to lose up to US\$100 million per day during each day of a major supply disruption according to some accounts.

Furthermore, with Ukraine’s presidential elections scheduled for January 17, 2010, pressure exerted by Moscow on Kiev during the presidential campaign could weaken the hand of candidates widely seen to be as less antagonistic towards Russia than current Ukrainian president, Victor Yuschenko, namely Yuschenko’s main rivals – Yulia Tymoshenko and Victor Yanukovich. Institutional measures designed to mitigate a crisis scenario have also been stepped up. On November 16, in parallel to their Stockholm summit, the EU and Russia signed a joint memorandum designed to provide an early warning crisis prevention mechanism foreseeing sudden energy cut-offs. The EU and Ukraine, for their part, held high level meetings in Kiev in at the start of the month, where they affirmed to cooperate further in projects designed to rehabilitate Ukraine’s GTN and work steadfastly towards the integration of Ukraine’s domestic energy markets into the framework of EU energy legislation.

FINANCIAL CRISIS OF NAFTOGAZ COULD PLAY INTO RUSSIAN HAND

While these are all positive signs for energy consumers (the EU) and producers (Russia) alike, they are hardly sufficient for nullifying the prevailing financial and technical risks associated with Ukrainian gas transit. Although Naftogaz has not missed its recent \$700-\$800 million monthly gas supply bills to Russia's Gazprom, Ukraine's national gas company remains on the verge of bankruptcy and each time Naftogaz clears the hurdle of a monthly payment deadline, a sense of national relief is invoked in Ukraine. Given the severity of last January's crisis, and in anticipation of more grief this winter, the very fact that Naftogaz meets the payment deadlines tends to make front page news in both Ukraine and Russia. Naftogaz has only been able to meet recent monthly payments, however (due on each 7th day of the month for payment of the previous month's gas bill), after bail out measures from the Ukrainian government, which itself is being bailed out by international creditors. Ukraine's public finances remain in a difficult condition this winter and the International Monetary Fund (IMF) has already extended a \$16.4 billion rescue package, which is under constant threat of suspension due to Kiev's mismanagement of the Fund's drawing conditions.

Last week Naftogaz paradoxically cut off the gas supply to SUMEEXHIM-PROM, a major domestic Ukrainian gas consumer and one of the country's largest chemical sector enterprises, for failure to meet its gas payments arrears to Ukraine's national gas pipeline operator. The resulting gas cuts resulted in a cessation of production at the enterprise. Payment arrears to Naftogaz from Ukraine's domestic gas consumers are both problematic for the company (since they require bailout measures from the Ukrainian government and precipitate the company's own payments crisis with Gazprom) and for the Ukrainian economy (since they result in production delays and further economic woes). Russia's Vladimir Putin has repeatedly called on the EU to "open its wallet" and help pay Ukraine's gas bills, but this has been ruled out by numerous EU officials, including Energy Commissioner, Andris Piebalgs.

MAJOR TECHNICAL RISKS REMAIN WITH UKRAINE'S GTN

Furthermore, it was acknowledged in a government document earlier this month that Ukraine's gas transportation network (GTN) is currently in a highly dilapidated state, requiring some 2.57 billion of investments for maintenance and rehabilitation projects. No major funding has been committed by international donors for such purposes thus far, however, and Ukraine's government increasingly realises that European investors will only look at the country's GTN on a commercially driven, project-by-project basis. Furthermore, the dire financial state of Naftogaz remains a firm barrier to European investment into such projects and the company is yet to reform its payment collection mechanisms from domestic consumers. While Ukraine's future integration into EU energy legislation could reduce wide-ranging concerns which investors have with Ukraine's gas trade – not in the least by reducing the scope for rent seeking and domestic political patronage by increasing transparency levels – there is no short term magic wand for the financial and technical woes of Ukraine's GTN and the national gas pipeline operator.

HAVE MOSCOW'S OBJECTIVES BEEN REALISED?

All of this could work in Moscow's favour, as there is little secret in the fact that Russia would endear to a situation where it could take a controlling stake in Ukraine's GTN, given that the Ukrainian transit corridor remains the most economically viable route for Russian gas exports to Europe. Despite Russian plans to build transit-avoidance gas export pipelines under the Baltic Sea and through the Balkans, exercising control over this route and avoiding fur-

ther costly transit disputes with Ukraine must be seen as a Russian strategic objective which has not yet totally lost its prominence. Last month, Russian State Duma deputy-speaker and key Russian energy legislator, Valery Yazev, called on Ukraine to demonstrate its credibility as a reliable transit partner to both Russia and the EU this winter and denounced plans designed to move Ukraine closer into the framework of European energy space.

While the jury may remain out for quite some time yet when assessing Moscow's underlying objectives upon its decision that Gazprom should cut off EU-bound gas supplies last January, applying political and psychological pressure on Ukraine as a means of discrediting Kiev as a reliable manager of EU-bound transit gas, and ultimately pushing forward a firm case for placing Ukraine's GTN under the management (or control) of a consortium of international energy groups, could not be ruled out. Off course, it is clearly envisaged in Moscow that Gazprom would be a lead player (if not the lead player) in such a consortium. Putin eagerly spoke of Russia's willingness to participate in the possible privatisation of Naftogas last January, if the company would not be able to demonstrate its reliability as an effective manager of Russian gas bound for the EU. While it cannot be said with certainty that such a scenario motivated Moscow's actions towards Kiev last January, what can be said with far less doubt is that if Moscow's underlying objectives have not been achieved, the likelihood of another gas crisis breaking out increases substantially.

POLITICAL FACTORS INSIDE UKRAINE REMAIN DIFFICULT TO PREDICT

Neither should political risks associated with the run up to January's presidential elections in Ukraine, and their capacity to precipitate a new gas crisis, be underestimated. Ukraine's president, Victor Yuschenko, opposed the January 19 agreements between Gazprom and Naftogaz, which were signed under the auspices of his prime minister and staunch presidential campaign rival, Yulia Tymoshenko. The rivalry between the two Ukrainian leaders has intensified, and it is not unlikely that Yuschenko, who is running significantly behind Tymoshenko in the polls, would employ the "gas card" in undermining Tymoshenko's campaign. While Tymoshenko and Putin met each other with cordialities in Yalta last month, Yuschenko urged Russian president,

Gas export route to Europe



Putin protégé Dmitry Medvedev, to amend the January gas accords, whose terms, he argued, were far too onerous for the Ukrainian economy. The move was seen as an attempt to embarrass his political rival, Tymoshenko, who had staked no small part of her political legitimacy on Ukraine's adherence to the aforementioned agreements. Yuschenko has also diverted some of the IMF's credit to Ukraine for populist pre-election measures such as payment of wages and pensions payouts, in seeming breach of the Fund's agreement with the Tymoshenko government.

UKRAINIAN PRESIDENT YUSCHENKO UNLIKELY TO GO OUT WITHOUT A FIGHT

Moscow, learning from mistakes made during Ukraine's last presidential campaign in late 2004, when it endorsed the winner of a fraudulent first round of the poll, has chosen to keep a low profile this time around. The fact that Gazprom may opt to take a more benign position to any pending default in gas payments from Naftogaz, may in itself be an indication of tacit support for either Tymoshenko or Yanukovich, both of whom are preferred by the Kremlin to the problematic Yuschenko. The Ukrainian president is unlikely to go out without a fight, however, and a highly unpredictable period lies ahead in Ukraine this winter, involving gas, power and politics, as European gas consumers will be forced to look on with no shortage of anxiety.

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