

## The January 2009 Russia-Ukraine crisis and the imperative of bypass pipelines

By Jonathan Stern

January 2009 Russia-Ukraine gas crisis was a seminal event in European gas and energy security history. It marked the end of 40 years of reliable supply of Russian gas to Europe. For a number of reasons – commercial, political and technical - it called into question whether the Russia-Ukraine gas corridor can henceforth be regarded as reliable. Finger-pointing and accusations of blame for this event should not be allowed to obscure the inescapable fact that, for the first three weeks of January 2009, Russian-Ukrainian bilateral relations suffered a catastrophic breakdown, and for two of those weeks Europe failed to receive around 20% of its gas supplies. There is no guarantee that these events will not be repeated.

Those who hold Russia principally responsible for this event will see no remedy other than phasing out European dependence on that country's gas supplies. But given long term contracts with European utility companies stretching out as long as 25 years in the future, and the lack of any immediate (gas or other energy) supplies to replace, even a fraction of those currently supplied by Russia, this is an impractical proposition in anything other than the very long term. Those who believe that the principal problem lay – and continues to lie – in Ukraine and in the Russian-Ukrainian bilateral relationship, may conclude that there are only two options:

- The creation of a consortium of European, Russian and Ukrainian companies which would own and operate the Ukrainian transit network;
- new pipelines from Russia to Europe bypassing Ukraine.

Time for discussion has largely run out. January 2009 abundantly demonstrated that European institutions – whether the European Commission and its presidency, the Energy Charter Treaty or European gas companies - have no significant leverage over either Russia and Ukraine to resolve a bilateral energy dispute and this is not their responsibility; the same cannot be said of EU energy security crises. For as long as Ukraine refuses to implement a transit consortium, bypass pipelines remain as the only medium term solution.

The Nord Stream and South Stream pipelines have been discussed for some years with both projects having encountered opposition. Opposition to Nord Stream among Baltic countries is well known and has succeeded in delaying the progress of that pipeline. Conspiracy theorists have even suggested that the January 2009 crisis was staged by Russia to rally European Union support for Nord Stream. Without entering into such speculation, it is important to observe that had two Nord Stream and a South Stream pipeline been in operation on January 1, the impact of the dispute would have been reduced to minor inconvenience for the vast majority of European consumers. It is European – and particularly south east European - consumers who suffered severe humanitarian consequences from lack of gas supplies, to whom concern should be directed.

Economic objections to Nord Stream and South Stream can be quickly dispensed with. These projects will of course be much more expensive than new pipelines carrying similar volumes of gas via existing or new land-based routes, but this is largely irrelevant as long as finance can be raised by the commercial partners in these projects. Those who continue to insist that new pipelines should be land-based are unconsciously or wilfully missing the point: the problem

as seen from Moscow is the unreliability of transit countries; Russian export strategy is aimed at eliminating transit countries to the maximum possible extent. While Moscow's position may be considered mistaken, or its own fault, it is a policy which can only have been reinforced by the January 2009 events. Those who further assert that this is "Russia's problem" to solve are also missing a key point: Gazprom is prepared to provide highly expensive alternative pipelines to guarantee European gas security at its own (and its partners) expense. If European Union countries wilfully delay or prevent such pipelines from being built, then the consequences could be seen to be Europe's – just as much as Russia's – responsibility.

Other objections to Nord Stream and South Stream pipelines range from environmental opposition, to accusations that the pipelines will allow Russia to conduct espionage operations against the littoral states, or to isolate individual European countries to make the latter more amenable to political pressure. The resistance of (particularly) Baltic countries, and the political nervousness of all former Soviet states and Warsaw Pact/Comecon member-countries, to any Russian initiative which might seem to place them at an economic and political disadvantage to Russia, is completely understandable. With the Soviet and Cold War eras still fresh in many minds, these countries have no reason to do Russia any favours, and much reason to be suspicious of its motives. However, the world has changed. While nobody is expected to forget history, all of us need to move on. NATO and EU membership have – or certainly should have - provided protection from fears of military and/or economic hostilities.

Governments which retain suspicions about adverse consequences of dependence on Russian gas supplies should extricate their companies from long term contracts with Gazprom, and arrange for alternative gas or energy supplies. Despite continual discussion of these options in a range of European countries, actual results have been extremely modest. This is not a criticism, but an observation that, for the majority of these countries, to replace even a part of Russian gas supplies – either with alternative gas (and LNG) supplies or with nuclear or coal-fired power stations - will be both extremely costly and require at least 5-10 years to achieve. Decisions now need to be taken, but should be taken by national governments about the energy future of *their own countries*, not by governments on behalf of others.

The January 2009 events mean that Nord Stream has ceased to be a "Baltic issue" allowing regional countries a license to delay the pipeline, just as South Stream is not a "Black Sea" issue giving countries such as Ukraine a similar license. These pipelines have become pan-European gas security issues. Individual European governments have the right to refuse to take gas from these pipelines; but they should not prevent others from doing so.

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