

Russia's new weapon: the politics of pipelines

Written by Marshall I. Goldman

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MARSHALL I. GOLDMAN, JUL 3 2009

When it comes to energy, most of us consider Saudi Arabia to be the dominant supplier as well as the world's most powerful petro-political force. As the world's major exporter of petroleum, it also has the power to determine the price of oil which also means that it is able to accumulate massive sums of foreign currency reserves.

Without taking anything away from Saudi Arabia, it happens that the above description is not entirely correct. As the leading member of OPEC, Saudi Arabia sometimes finds that it must adhere to common policies with other members of OPEC which requires it to hold down production and exports in order to force up world oil prices.

By contrast, since it is not a member of OPEC, Russia is not bound by such agreements. As a result it frequently happens that while other major producers are cutting back production, Russia feels no such need and as a result it becomes the world's largest producer of petroleum. Even if it is not producing more petroleum than anyone else it almost surely is producing more in the way of natural gas. It is Russia not Saudi Arabia which has the world's largest reserves of natural gas. Russia is effectively the 'Saudi Arabia' of the natural gas industry.

This puts Russia in a political- economic situation that in many ways makes it more powerful and influential than it was in the Cold War. In the Cold War, Russia was well equipped with missiles and war heads but for the most part it was stymied from launching these missiles because it knew that if it did, the US would do the same thing and vice versa. As a result there was a standoff. There are no such constraints when it comes to oil and gas. Russia can and has used its energy resources, especially its gas to back up its political program, notably when it comes to dealing with Ukraine and Europe as a whole.

In particular, Russia has turned its natural gas into an especially effective weapon. This is because Europe still is mostly dependent on its pipeline system for its natural gas supplies. This means that if for some reason Russia curbs its pipeline deliveries, its customers, especially those in the east who are the furthest from Norway and Algeria, have no other option than to agree to whatever Russia may demand. This is very different from consumers of petroleum who can be supplied by deliveries in a variety of methods which makes it harder for one supplier to force compliance with his demands. Some day there may be wider spread use of liquified natural gas (LNG) which would allow for a variety of suppliers. But for now most consumers in Europe are tied to a pipeline. Moreover Russia is the dominant outside supplier to Europe more so now than Algeria and the North Sea and Norway.

Recognizing how dependant it is, Europe has been trying to broaden its sources of supply by building NABUCCO, another pipeline that would bring gas to Europe from other suppliers such as Azerbaijan. Unwilling to forgo its monopoly, Russia has been doing everything it can to undercut efforts to build NABUCCO and other alternative delivery systems. To deter investors, suppliers and potential customers of NABUCCO, Russia is moving ahead with at least two other pipeline delivery systems, North Stream and South Stream.

The only worrisome concern the Russians have is that their reserves of natural gas might soon run out. However this is not likely to happen in the near future and when it does, the Russians will most likely be able to supplement their own natural gas with supplies from Central Asia which for the most part must move through Russia on their way to western consumers. In fact Central Asian gas is more often than not distributed as Russian gas since without a gas pipeline system like NABUCCO there is no other way of moving Central Asian gas to Western Europe except through

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Russia.

In sum today its natural gas provides Russia with perhaps the most effective weapon it has ever had in dealing with the West. For those in the West, thus far no one seems to have come up with a way to neutralize the use of this weapon and with time it is likely to become even more effective.

Marshall I. Goldman is the Davis Professor of Economics, Emeritus at Wellesley College and Senior Scholar at the Davis Center for Russian Studies at Harvard University. His most recent book is "Petrostate: Putin, Power and the New Russia" published by Oxford University Press.