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Beginning of speech

Two Pipelines – Years Apart

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Check against delivery.

Ladies and Gentlemen,

International energy trade depends not only on sufficient export capabilities but also on corresponding transport facilities.

This is particularly relevant for Russia after the collapse of the USSR.

While previously the USSR could dispose of a vast network of pipelines – oil and gas – and electricity nets within its own territory, it has now to negotiate access to these facilities in the newly independent republics like Ukraine, Azerbaidshan etc.

This is part of the problem with Ukraine.

The bordering countries of the Caspian Sea therefore seek to diversify their pipelines through countries like Georgia.

The first example is the pipeline from Baku in Azerbaidshan to Ceyhan in Turkey with president Putin having blessed the negotiations with his personal presence.

Energy comes not always as a usual commercial product, but is often accompanied with political dependencies.

As a consequence, countries short of natural resources have to raise the question which price they can still afford and are willing to pay.

Today, I have the honor to talk to you about two pipelines providing Germany with natural gas that came with both economic and political arguments.

Let me start by explaining the importance of natural gas in Germany.

Natural gas is used as a primary energy, for example in its natural state without conversion losses, mainly for space heating, industrial manufacturing processes and power generation.

Natural gas is a comparative newcomer to the German energy market and has achieved a share of roughly 20 % in the primary energy market in only 30 years.

The remaining is shared among oil with 37, coal hard and lignite with 24, nuclear with 12 and renewables with 5 % each.

McKinsey said in an energy report published last month that the percentage of natural gas will double until 2020.

Roughly half of the gas is used in the residential and commercial sector where the environmentally benign utilisation of natural gas has its greatest impact.

However, industry is increasingly discovering the advantages of natural gas.

The year 1970 can be considered as an important landmark in the history of natural gas supply in Germany.

A consortium of Western Germany's Mannesmann/Thyssen Stahlunion Export decided to sell 1.2 million tons of large diameter pipe for a natural gas pipeline to the then USSR in the middle of the cold war.

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In return for more than 2,000 kilometers long pipes, the Soviet Union agreed with Ruhrgas on providing 52 billion cubic meters of gas to heat and light Western households.

The contract had been lasting for 20 years during which Mannesmann had to find customers for Russian gas in Germany.

The USSR benefited from a low interest and long-term loan granted by Deutsche Bank valued 1.2 billion Deutschmark – by then 330 million US Dollar – in order to pay for the pipes' delivery.

This highly controversial and explosive deal was by that point of time the biggest East-Western business transaction.

Critics' outcries were mainly targeting to the increasing dependency of the communists.

Especially our NATO partners suspected a growing German convergence towards the Soviet Union.

However, the whole deal remarked a new beginning in the relationship between capitalist and communist countries.

That meant, long before the cold war started to thaw between governments, Western corporations pursued their own kind of Eastern politics.

Alone the presence of the German Federal Minister of Economics Schiller and the Soviet Minister of Foreign trade Patolitchew at the signing gave the deal a political weight. That was in 1970.

In 1980, German Chancellor Helmut Schmidt had been surprised when I tabled my proposal to travel to the United States in order to argue in speeches against the so-called pipeline embargo of the Reagan administration which prohibited any business with Russia concerning technical equipment of pipelines.

What had happened?

The American government became more and more concerned with following new business deals between Mannesmann and Gazprom. In the eyes of US officials, the German dependency on Russia skyrocketed and became a threat to American foreign politics.

On our side of the Atlantic Ocean, we shared the view that Germany had a healthy energy mix and that the increase of gas deliveries from Moscow did not bother our or America's national security issues.

The Reagan administration pressed Germany, UK; France, Italy and Japan to stop export guarantees for exports to the USSR and withheld export licences for British compressors for the pipelines in the USSR.

Mrs. Thatcher reacted by banning via law against the extraterritoriality of the US action.

After the first meeting between Reagan and Gorbatschow, this issue faded away.

In the end, we had been successful in convincing the Regan administration to revoke its pipeline embargo.

The described business deal had been continued since then even after the official phase-out and after the wall came down.

Today, deliveries from Siberia are everyday life in Germany.

And Eon Ruhrgas even holds a 6.5 % stake of Russian state-owned monopolist Gazprom as the largest foreign shareholder.

Gazprom in turn holds a 35 % stake of Wingas, which is affiliated to the German Wintershall AG.

Both partners have formed a trading company called WIH of which they are each holding 50 % of the shares.

This constellation appears to be a welcome meeting of industrial interests and could act as a confidence builder in a conflict.

However, reciprocity in Russia is lacking.

Ladies and Gentlemen,

I would like to finish my initial comments on the first pipeline and the 1980 deal, and start with the Baltic Sea Pipeline whose construction has been recently agreed upon.

What is the political background?

In sheer size, Russia's economy lags behind those of Holland or Brazil, in per capita income, Russians lags even behind Malta and Uruguay.

In terms of conventional military power, the Russian army continues to be stuck deep in the Chechen mud.

However, there is one field where Russia is emerging as a superpower:

In its ability to manipulate European supplies of natural gas.

Since years, Vladimir Putin has been using Russia's energy monopoly to influence politics in the neighboring countries of Estonia, Latvia, Lithuania, Poland and Ukraine.

In his understanding, national security interest calls for reestablishing Kremlin's control over strategic infrastructure in those states.

The Russian government is well aware that the consolidation of transparent democracy and open markets in East-Central Europe will have a positive impact on the course of reform in Russia, certainly in Ukraine and perhaps in Belarus.

These positive, pro-democratic developments are to be prevented by a Russian regime, which became domestically quite authoritarian with its firm grip on the courts, the media, parliament and elections.

Of course, it would be a dangerous exaggeration to name Russian economic power projection imperialism, but the neocolonial characteristics of Russia's foreign energy policy are very apparent to those living immediate next to it.

One is tempted to think that such considerations do not count for Germany as the largest economy in Europe.

But they indeed concern my country since the pipeline was planned to connect exclusively Russia with Germany.

In such a constellation, an attempted extortion is very likely and will not be immediately punished by a third party involved.

According to the International Energy Agency IEA, Germany's dependency on Moscow is already by far too high with one third of its gas imports coming from Russia and up to 40 % envisaged in the future.

Claude Mandil, executive director of the IEA, has just recently called on Russia to invest 11 billion US Dollar to meet its obligations to both domestic and foreign customers including China.

Actually, the planned 744 mile-long pipeline will provide Germany from 2010 on with an even higher proportion of its natural gas demand, which unfortunately aggravates the situation.

Moreover, the gas stream through the pipeline is also intended to supply the rest of Western Europe, which may lead to a growing dependency of more nations.

The planned pipeline is set to bypass intentionally Poland and Ukraine, giving rise to speculations that both countries may be cut off from Russian gas supplies.

In this context, one has to bear in mind that they are both currently billed at below market rates in return for granting Russian exports to cross their country.

Behind this backdrop, project planners are well aware that the expensive German-Russian link costs the triple of the price of a conventional land-based pipeline.

Astonishingly enough, the 5 billion US Dollar deal was struck between Putin and Schroeder last September, just days before the German Chancellor lost his power.

Although the deal had an obvious Russian-German political touch, the contracting partners were Gazprom, Eon and Wintershall.

Even more remarkable was the fact that Schroeder landed a lucrative position with Gazprom just afterwards.

The close friendship to Putin in combination with the job offering triggered claims he had sold his country out.

Within her first 100 days in office, Germany's new Chancellor Angela Merkel has been thrust into stormy waters that are both a test and a serious challenge to her government's tenuous hold on foreign policy.

The potential use of Russia's energy colossus Gazprom as a lead arrow in Kremlin's collection of foreign policy tricks has changed the mind of many German politicians: Germany appears to have placed too many eggs in the Russian energy basket.

At the beginning of this year, Russia impressively demonstrated what exactly playing politics with pipelines means: All of a sudden, Russia switched off the flow of natural gas to Ukraine.

This unacceptable sanction was officially caused by the Ukrainian rejection of a so-called "super-beneficial" new gas contract that would quadruple the price Ukraine now pays for natural gas.

On the one hand, it is true that Ukraine is paying less than the world price and that oligarchs on both sides are benefiting from this post-Soviet arrangement.

On the other hand, much speaks in favor for a political decision:

Starting with the theatrical live shut-off broadcasted in television to president Putin's – and not Gazprom's – public announcement.

And obviously, the blackmail's addressee was not Belarus, a country that remains submissive to Russia, but Ukraine, an insubordinate country longing for independence.

Let's take a closer look on the bare self-explanatory figures:

50 US Dollar per thousand cubic meters of natural gas for dictator Lukaschenka's Belarus compared to 230 US Dollar for the orange-colored revolutionist Juschtschenko's Ukraine.

Now, we literally know the price for independence and democracy for East Europe's post-soviet nations.

Finally, Russia only restarted its deliveries caused by his best customers' complaints:

The natural gas supplies of several countries – including Germany – which are all beneficiaries from the land-based pipeline across Ukraine suddenly drastically dropped.

Consequently, the Russian reasoning behind a costly pipeline at the bottom of the sea is simple:

By-passing transit gas deliveries through Eastern Central European States result in fewer grievances by Western nations.

For the northern post-communist countries remain only two choices, given their energy supplier's tattered reputation:

They could swallow hard and try to join the new pipeline or they could strive to diversify their sources of energy supply.

Unfortunately, neither alternative looks promising for the Baltic States.

Estonia and Lithuania hope to join, whereas Latvia has its own huge and unused natural underground gas storage capacity.

Its economy Minister claims that this would be useful for Western Europe, while Wintershall AG, the German partner of the pipeline project, stays renunciative.

During my last journeys through the Baltic States, I recognized the harsh criticism in all three countries caused by the Russian-German pipeline.

It has been at the very top of the agenda when I was talking to the Latvian president or the prime minister of Estonia.

In Poland, politicians have already stated to diversify the country's supplies as quick as possible in order to reduce energy dependency on Russia.

Under a right-wing government, Poland planned a pipeline to Norway.

Although the next, ex-communist, administration cancelled this plan in 2002, Polish politicians now might revive the idea, maybe in combination with new nuclear power stations.

Germans new Chancellor Merkel took the first steps to abate Polish headaches and fears: She offered to build a branch connection in order to include the Polish to the controversial pipeline project.

That was a helpful proposal dealing with Polish anxieties of being sandwiched once again between Russia and Germany.

However, all four Eastern European nations can do little to secure their energy needs by themselves.

Their hopes rest mainly on a common European energy policy, which is not yet within the range of vision.

But at least in the aftermath of the Russian-Ukrainian gas dispute, deputies in Brussels woke up.

They agreed in EU parliament that Europe has to address the dangers caused by energy dependencies.

As of today, one quarter of EU gas imports derive from Russia; a figure that is expected to increase even more.

The proposed political solutions space range from Polish deputies who want to see EU energy policy treated as foreign security policy rather than industry policy, to the Austrian Minister Bartenstein who indicated that the only way to break Russia's hold on EU energy provision is to search for alternative providers, transit routes and energy sources.

Finally also German and other European gas companies are actively considering Liquefied Natural Gas imports which have been common for a long time in Japan but have been neglected in Germany because of higher prices and confidence in Russia's adherence to contract.

The punishment of Ukraine has told the West a lesson.

As you could see, in my point of view, one always has to take into account Russia's political ambitions when talking about its energy politics.

And latter are not always noble in the sense of European integration:

One can speak of a Russian “divide-and-rule” policy with regard to the Union.

Lastly, the European commission came up with a proposal for a joint energy policy.

This had been commented by various heads of state right off the bat.

Angela Merkel pointed out correctly, that a coordinated energy policy was helpful, but another central authority in Brussels was not desirable.

Finally, one should always keep in mind Russian political intentions of pipelines leading Eastern gas to Germany or elsewhere.

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With these words I wish you stimulating and interesting discussions.

Thank you.