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South Stream 2.0: The Energy Wars Continue (I)

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In the next few years, Russia's decision to put a stop to the South Stream project will become a deciding factor in how the energy situation develops not just in Europe, but in the whole of the Eurasian continent.

Essentially, we are dealing with an energy war unleashed by the United States and the European Union's pro-American leaders. It is in this vein that the reports which appeared in the pages of Western newspapers at the beginning of December stuffed with spy clichés reminiscent of the cold war should be considered.

The tone was set by the London-based newspaper The Financial Times, which has revealed «the

hand of Moscow» at the heart of the European Union. According to the newspaper, the mass demonstrations that swept across Central and Eastern European (CEE) countries in 2012-2013 against the development of shale gas deposits in Europe were paid for by Russia, or, to be more precise, by Gazprom. Similar allegations were also made by The New York Times. The reports' authors even mention the specific amounts that were allegedly paid by Russia, while at the same time acknowledging that the intelligence agencies of CEE countries have been unable to get any evidence to back up their claims.

Western newspapers focussed particular attention on demonstrations that had forced the American company Chevron to wind down its activities in Bulgaria, Romania and Lithuania. In point of fact, these demonstrations were on a massive scale and forced the Bulgarian and Romanian governments to terminate an agreement with the American oil company on the development of shale gas deposits. In Lithuania, the situation developed somewhat differently. There, Chevron experts refused to comply with Lithuania's tax demands, as well as finance the development of areas in which it was planning to carry out environmentally hazardous activities.

Prior to that, the American company ExxonMobil also wound down all of its shale gas projects due to their inefficiency. The financial insolvency of these projects plus the environmental threat they created are what actually led to the poor outcome for Americans in these countries. The West, however, has decided to put forward a different version of events for the loss by American companies of a significant section of the market by declaring that the protests against shale gas projects in Bulgaria were the work of Russian agents. The same pro-Russian elements organised the resignation of Bulgarian Prime Minister Boyko Borisov's government in 2013, to which end they financed the extreme right-wing ATAKA party. Although the specific reason for the anti-government protests was the then increase in utility bills, it is to be supposed that this was also paid for by Russia. According to Western newspapers, the total amount of payments received by Bulgaria was upwards of \$20 million.

Romania also cannot do without «the hand of Moscow». The New York Times reports that Gazprom was involved in «a mysteriously well-financed and well-organized campaign of protest» against shale gas projects in the country. Once again, however, the Romanian intelligence agencies admit that they do not have a single document proving Russia's involvement in the anti-fracking protests. The Romanian Parliament's industry committee does not have any evidence either, but claims that Gazprom allegedly spent \$100 million to fund a campaign against the shale revolution in Europe. Nobody is able to clarify exactly where these figures have come from.

It is unsurprising that those who apparently received Russia's millions are categorically denying the accusations. Leaders of Bulgaria's ATAKA party stress that it is fully financed through state subsidies within the framework of national legislation. And as far as the leaders of the anti-fracking protests themselves are concerned, they view what is happening as an attempt to further the interests of American energy companies at any price.

Tellingly, the protests in Bulgaria, Romania and Lithuania broke out in 2012-2013, but «the hand of Moscow» is only being mentioned now, in the midst of increasingly strained discussions regarding Europe's energy security issues and America's shale gas projects, which, amid falling

oil prices, are becoming less and less economically viable.

The position of opponents to the so-called shale revolution is also gaining ground in the US itself. According to Frankfurter Allgemeine Zeitung, «one of the most remarkable results» of the US election campaign at the beginning of November was the outcome of the referendum held in the Texas city of Denton on the extraction of shale gas through fracking, hydraulic fracturing using chemicals, that American companies are also imposing on Europe. The majority of voters, 59 per cent, voted to ban the method as it causes considerable harm to the environment. Denton is located just a 45 minute drive away from the offices of America's largest oil company, ExxonMobil. It is also the location of America's largest shale gas deposit, Barnett Shale, where the shale revolution began in 1981. The area has 280 active wells [3].

So a very strong anti-fracking precedent has been established. Following the logic of The Financial Times and The New York Times, those against the extraction of shale gas in Texas were also no doubt financed by Russia.

Meanwhile, the intergovernmental agreement signed in Moscow on the supply of Russian oil to Slovakia up until 2029 opened a new chapter in Russia's cooperation with CEE governments. Despite the seemingly unfavourable conditions in the world oil market, Moscow and Bratislava have taken an important step towards jointly ensuring Europe's energy security.

The document was signed by Russian Energy Minister Alexander Novak and Slovak Economic Minister Pavol Pavlis. «We have no reason not to trust our Russian partner, which has always fulfilled its obligations» and is «a reliable and long-term supplier with whom we work well,» commented Slovakia's Ministry of Economy upon signing the agreement with Russia. The ministry is convinced that Russian oil supplies are «extremely important» for Slovakia, including from an engineering and manufacturing point of view: «The equipment at our refineries is tailored to the chemical and manufacturing makeup of Russian oil. So if we suddenly decided to export oil somewhere else, we would need to change the operating procedures at our refineries.»

Cooperation between Russia and Slovakia in the energy sector actually has a strong foundation, and they previously entered into a similar agreement in 1991. This was also of a long-term term nature and over the entire length of the agreement, neither Russia nor Slovakia were given any reason not to trust each other. The provisions of the new agreement extend the parameters of a bilateral cooperation. They stipulate a pronounced increase in the volumes of Russian oil supplies, both in the volumes of oil intended for Slovakia itself and the volumes of oil passing through Slovakia to other EU member countries. For both supply categories, the annual volume has been set at 6 million tons. As of year-end 2013, 5.8 million tons of Russian oil had been supplied to Slovakia through the Druzhba pipeline. Both parties agreed that if the technological infrastructure is available and contracts are entered into between businesses, then transit volumes could exceed 6 million tons of oil a year.

The signing of such long-term agreements in the energy sphere inevitably raises two questions, the first on the resource base and the second on the possible fluctuations in oil prices. When it comes to long-term supply sources in Slovakia and other EU countries, then they are safeguarded by oil reserves in Russia. And as far as fluctuations in oil prices are concerned, then experience

has shown that they are cyclical in nature. If you recalculate the prices according to the current dollar exchange rate, for example, then it turns out that they were \$100-110 per barrel not only fairly recently, but also at the beginning of the 1980s and even in the 1860s. Thus the market has successfully regained the falls in prices throughout the whole of the last century and a half.

The soundness of long-term contracts for the supply of Russian oil to Europe is also backed up by independent analysts. Experts from the British company BP have calculated that oil production in Russia will have grown to 548 million tons a year by 2035 (it is currently in the region of 520 million tons). Gas production in Russia will also increase – to 807 billion cubic metres a year (currently around 672 billion cubic metres).

European players in the gas market are looking for ways to expand their energy cooperation with Russia, despite attempts by the European Commission to sabotage their aspirations. The Slovak gas transmission system operator Eustream is planning to build a pipeline from Slovakia to the Bulgarian-Turkish border, so is hurrying to join a new plan for the transportation of Russian gas to Europe through Turkey. It is the first specific consequence of revised plans to build the South Stream pipeline...

[1] The Financial Times, 01.12.2014

[2] The New York Times, 01.12.2014

[3] Frankfurter Allgemeine Zeitung, 06.11.104