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The European Union's Energy Security and Russia

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Abstract. The article looks at the relations between Russia, the USA and the EU in the sphere of energy security retrospectively and in the light of the current political crisis in Ukraine. Particular attention is paid to the evolution of the key actors' positions and the development of their relations in the framework of regulation regimes set by pivotal agreements in the energy sphere.

Keywords: Russia, EU, USA, Ukraine, Germany, energy security.

Working on this article dedicated to the problem of the energy security in Europe and Russia's role in ensuring it we came upon a remarkable manuscript by Italian Professor Giuseppe Guarino *The Citizens of Europe and the Crisis of the Euro*.¹ It occurred to us that for a more complete and profound insight into the acute problems and obstacles confronting the energy security of European countries and their once fruitful and mutually beneficial energy cooperation with Russia we have, by way of an introduction, to acquaint the reader with the key provisions of the manuscript. Guarino's sharp and sometimes trenchant remarks about the crisis of the EU and the euro merit particular attention because he is not an "armchair professor," but an expert with a long track record of being involved in the formation of the European Union and a one-time head of the European department of Italy's Christian-Democratic Party.

Giuseppe Guarino's main theses are that in the late 1990s the EU bureaucracy in Brussels staged a treacherous, indeed a Jesuit-style "putsch" by adopting an illegal Regulation 1466/97, which "amputated" the democratic founda-

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tions of the Maastricht Treaty that should have provided the basis for a genuine European Union and a genuine (not false) euro. To wit: the Regulation usurped from the national governments sovereign powers to:

- a) pursue an independent economic policy and
- b) to borrow independently (loans and credits).

By usurping these two functions—whereby, according to Maastricht, nation states were to achieve one of the main goals of the Treaty, i.e., economic growth and development—the Brussels bureaucracy eliminated the prerequisites of real democracy within the EU structure. From now on the two functions were replaced by two obligations to comply with individual national programs prescribed by Brussels while the Maastricht function of the Union's bureaucracy to coordinate national economic policies through (non-binding) recommendations was replaced by the functions of an overseer who imposes fines for violations of prescribed discipline. As a result, since January 1999 (when Regulation 1466/97 came into force) and over the next 15 years, instead of accelerated economic growth the trend has been toward recession (the author cites some convincing statistics to the effect), increased debts that in most EU countries exceeded the ceiling set under the Maastricht Treaty. The euro never became the common currency for all the EU members. While in 1999 only two countries—Britain and Spain—retained their national currencies, in 2013 11 EU countries preserved their national currencies.

Unfortunately, Guarino left out the abuses of the Brussels bureaucracy in the vital sphere of European energy security. There can be no economic growth without a developed energy sector. The problem became particularly acute in recent years, not least due to the authoritarian tendencies displayed by the Brussels bureaucracy.

It is notable that before the emergence and consolidation of the phenomenon of authoritarianism of the Brussels bureaucracy energy sectors' cooperation between the European countries and the USSR, in spite of ideological differences, was developing successfully and to mutual benefit on a bilateral basis, especially after major gas fields were discovered and began to be developed in Western Siberia in the late 1960s and the Soviet leadership launched in the 1970s a massive gas program that included increased gas export to Western Europe.² That in turn called for speedy construction of long-distance pipelines. It was then that the historic "gas-for-pipes" project was conceived. Neutral Austria became the trailblazer in the late 1960s. This was not accidental. At the time, Austria was not a member of the European Economic Community. It had joined the regional European Free Trade Association (EFTA) created in 1960 to compete with the EEC. The benefits that accrued from the project were so obvious that a year later the FRG followed suit. Indeed, only the United States at the time opposed the "gas-for-pipes" project. Washington threatened to impose sanctions on the Western participants in the project. However, at the time the

Brussels bureaucracy had not yet taken the final shape of a sociopolitical institution obediently following Washington's instructions. Many liberals in the European states were more concerned about their own national interests. This was true even of Great Britain, America's closest ally. Margaret Thatcher, "the iron lady," telephoned President Ronald Reagan to tell him that her country's steel plants were idle and badly needed the orders generated by the "gas-for-pipes" project.

Over the years Soviet gas extraction was growing (in 1990 it amounted to 814.8 billion cubic meters, of which Russia accounted for 640.6 billion) [2] and export capacity was increasing. Brussels could not afford not to play "the guiding role" in such an important element of European energy security. Before long the USSR collapsed, with Russia emerging greatly weakened and saddled with President Boris Yeltsin's regime that became easy prey for bureaucratic capital. Under the guidance of the new Russian "liberals" who had come out of the woodwork and "costly" American advisers and experts who thronged the corridors of government institutions and eventually brought the country to a default, Russia found itself toeing the American line. The Brussels bureaucracy decided to take advantage of the situation and solve Europe's energy security problem at Russia's expense. A conference on the Energy Charter Treaty was held in Lisbon in December 1994. Brussels hoped to use the Energy Charter not only to strengthen its authority within the European Union, but to impose its rules of the game and its control on Russia and the CIS. The Treaty was opened for signing in 1994, but the Charter did not come into force until 1998. The Treaty covered four spheres: investments, trade, transit and dispute resolution. However, it became clear during the latter half of the 1990s that the main problems were connected with transit, so in 2000 negotiations began on the Transit Protocol to the Energy Charter Treaty.

For Russia the main minus of the Charter and the Protocol was the provision on free access of third parties to Russian fields and free transit of energy resources from other regions across Russian territory via Russian pipelines. This amounted to a loss of sovereignty in the sphere that has been and remains key for the restoration and modernization of the Russian economy. Fortunately, at that moment a change of leadership took place in Russia and the country's President refused to ratify the Charter unless substantial amendments were made to it.³

Having suffered a defeat on the external (anti-Russian) front, Brussels decided to deploy its forces on the "internal" (EU) front. Interestingly, this coincided in time with the preparation and adoption of the ill-starred Regulation 1466/97, but while the Regulation was "masked" by The Treaty of Maastricht, the Brussels bureaucracy was at pains to stress that its new steps in the energy field were allegedly prompted by concern for Europe's energy security. The Electricity Market Directive was adopted in 1996 and The First Gas Directive in 1998. This was done under the banner of liberalization and the formation of a common European gas market under the supervision of Brussels and under

prescriptions and schedules designed by the Brussels bureaucracy. It has to be said that the anti-Russian character of the First Gas Directive was muted. Even the long-term gas contracts, much disliked by Brussels, signed by *Gazprom* with individual European countries, were seen as an inevitable but temporary evil (there was still hope that the then Russian leadership would be more amenable).

Incidentally, the draft Transit Protocol prepared by the European Commission for the first time openly articulated the pet idea of the Brussels bureaucracy about the European Union as a single state entity and not a union of nations states as the Maastricht and the following EU treaties realistically stated. Meanwhile, the situation in Russia began to change: the state was consolidating and accordingly its foreign policy course was becoming more independent. This trend was not at all to the liking of those political circles in the West which had hoped that Russia would take a long time extricating itself from the 1990s crisis and would long remain a raw materials appendage of the developed countries. The West organized a well-coordinated smear campaign and set about spreading primitive but highly effective myths about Russia aimed at undermining mutually beneficial and equal energy cooperation between Russia and the EU.

Naturally, the Brussels bureaucracy was aware of these new trends and The Second Gas Directive was more openly anti-Russian. Brussels took on board Washington's myths about the "Russian threat," the *Gazprom* monopoly in the European markets, Russia's use of gas supplies as a geopolitical weapon, politicization of gas cooperation, etc. All these bogeys had nothing to do with reality: statistics and real facts attest to the opposite. Suffice it to recall that since the signing of "gas-for-pipes" deals Russia's share of the European market shrank by half as new suppliers came along—mainly Norway and Algeria—and the phenomenon of liquefied natural gas (LNG) came into being. The anti-Russian thrust of all these energy documents unilaterally prepared by the Brussels bureaucracy became obvious immediately after the first gas crisis in the relations between Ukraine and Russia in early 2006. Ukraine started unsanctioned take-off (i.e., stealing) of gas intended for Europe from the long-distance mainstream transit pipeline. Brussels and Washington pretended not to notice this open violation of the Energy Charter and the Transit Protocol, which Ukraine had signed and ratified, and blamed everything on Russia. That was the first, but by no means the last occasion when the West used the "transit weapon" against Russia. Obviously, Kiev would never have dared to take such resolute and brazenly anti-Russian steps without such "moral support."⁴ The Ukrainian leaders became aware of their country's role (as a transit country) in the geopolitical alignments in the world.⁵

Immediately after the "gas crisis" *Gazprom* sought to solve the transit problem and to plan building pipelines bypassing the existing "transit thresholds." The idea was put forward of a North-European pipeline (later dubbed *Nord*

Stream). *Gazprom* signed a memorandum on exploratory work for the first thread of the pipeline with the French *Total* and the Norwegian *Statoil/Hydro*. However, Washington's reaction was swift and, to an outside observer, rather unexpected: in late October 2006 Matthew Bryza, then deputy assistant of the Secretary of State, told the newspaper *Financial Times Deutschland* that *Nord Stream* would make Germany more dependent on Russian gas, which could lead to a repeat of the Ukraine situation on German soil. It is hard to say whether this overt and brazen interference in the affairs of other countries has more to do with ignorance or ill intent. The fact of the matter is that the building of *Nord Stream* was meant precisely to prevent a repeat of the "Ukraine situation" and eliminate the energy threat to Germany and the other European countries. The Russian Foreign Ministry had every reason to make this comment: "Unfortunately, one gets the impression that the counteraction of the USA first to the *Blue Stream*, and more recently to the North European Pipeline (*Nord Stream*) has been prompted not by concern for the energy security of Europe, but by the principle preached by some American officials that good pipelines are those that bypass Russia" [4]. Indeed, only an inflamed imagination could see Russia's efforts to "untangle" some "transit knots" by building, together with the gas consumer countries, pipelines directly linking suppliers and consumers as a "threat" to these consumers.

The "gas threat" thesis was quickly taken up by the Brussels bureaucracy. Leading the pack was the EU Energy Commission in which the representatives of "new Europe" played the key role at the time. Citing environmental risks, the high cost of the project, etc., they tried to disrupt the *Nord Stream* project throwing spanners in the works and delaying the construction of the gas pipeline. In reality the opposition of the Baltic countries and Poland was motivated by largely practical considerations of a very prosaic kind. *Nord Stream* would have bypassed these countries depriving them of substantial transit fees and diminishing their leverage on Russia. The latter circumstance was pointed out by the authoritative energy journal *Petroleum Economist*, which wrote that Poland's negative stance as a traditional transit country stemmed from the fact that the building of *Nord Stream* deprived it of an important lever in its negotiations with Moscow [5, p. 37].

Be that as it may, the European Commission, instead of diligently performing its main function of ensuring the EU countries' energy security, immersed itself in anti-Russian geopolitical games. Looking back on the past decade when the European Commission combated the Russian "gas threat" one cannot but conclude that these activities caused substantial damage to Europe's energy security. In fact experience-wise representatives of the energy business of "old" Europe pointed this out at the time. Thus the head of *E. On* concern Wulf Bernotat said in an interview with *Financial Times* that while everybody was talking about Russia, the real threat was coming from the European Commission (quoted from [6]). For his part Paolo Scaroni, the chief executive officer of *Eni*, told *Petroleum Economist* that *Gazprom* was the pillar of European energy security [7, p. 14].

However, the Brussels bureaucracy, taking its cue from Washington, is bending every effort to undermine this pillar of European energy security. In all their directives, practical activities and speeches the European Commission officials are harping on the need to diversify sources of gas imports as the main answer to the future Russian “threats.” It would be absurd to object to the idea of diversifying the sources of energy for import-dependent countries. The question is at what price diversification is going to be achieved. First, to diversify, there is no need to put obstacles in the way of the traditional source, especially if that source is Russia which has for many decades regularly supplied energy regardless of political and ideological factors (the Cold War, etc.) and has proved its reliability, never violating its obligations. Second, diversification makes sense if there are new sources of natural gas at least as reliable as the old ones, which cannot be guaranteed in the current turbulent and fast-changing historical situation.

However, what needs to be looked at above all is the track record of the European Commission’s huge bureaucratic apparatus in implementing its declared plans over the last decade. That record is anything but stellar. The Commission’s obsession with finding an alternative to *Gazprom* at any cost translated itself in 2006 into the *Nabucco* pipeline project. There was a lot of hoopla around that project, with agreements between its participants signed, and ill-thought-out and uncoordinated gas sources planned (on paper). The European Commission officials, especially energy officials, touted the future *Nabucco* as the key strategic project. The then Energy Commissioner Andris Priebeļs described *Nabucco* as the most important gas project (see [5; 8, p. 9]). However, as years went by *Nabucco* wilted and eventually dwindled into insignificance. “The mountain” (of plans and documents) brought forth “a mouse” which nobody takes seriously anymore.

Another pet idea of the European Commission—“the common European gas market”—similarly fizzled out. We do not think that the European Commission’s leadership was as incompetent as not to understand that in reality so far there is no common gas market in Europe. But the Energy Commission badly needed the thesis on the common gas market to justify its claim to the leading role in Europe. This was highlighted by the Third Energy Package prepared by the Energy Commission in the autumn of 1997 and approved, with some amendments, by the energy ministers of 27 EU countries in October of 2008. The document sets the target of developing a “common energy policy” (effectively, a common front against Russia) to strengthen the common gas market in Europe. But how can one strengthen what does not yet exist? In terms of energy the EU was then (and still is today) a sum total of national economies of different level, with very different structures of the economic mix. The shaping of a common gas market implies above all the creation of a ramified European infrastructure while the Brussels bureaucracy had only one “strategic” project (*Nabucco*) in its portfolio.

The thesis of the European Commission on the EU nation states following “a common energy policy” in the absence of an all-European gas transportation network is a vivid example of artificial politicization of the problem of energy security in Europe, an accusation the USA and the European Commission like to level at Russia. The paradox is that in pursuing its commercial interests *Gazprom* objectively contributes to the formation of a common gas market in Europe. Tangible proof of this is *Blue Stream*, *Nord Stream* and the earlier planned *South Stream*. No wonder Vladimir Putin answering a question from journalists during the Russia—EU Summit in October 2007 said, ironically but rightly, that he had the impression that *Gazprom* was more concerned with Europe’s energy security than the European Commission [6]. And indeed, European Commission officials seek not so much to ensure the energy security and stability of natural gas supplies to EU countries as to get rid, by hook or by crook, of the hated equal energy interdependence between the EU and Russia. Today, citing the Third Energy Package which they have themselves crafted, the European Commission is blocking effective and full use of *Nord Stream* by artificially creating a bottleneck in the place where Russian gas exits the main pipeline on the German coast. They have “reserved” practically half of the capacity of the *Opal* branch for a “third party” although nobody knows where and when that party will come from. In reality, this trick indirectly creates more room for Ukraine to abuse its position as the main transit country for Russian gas to Europe. The same was the aim of the European Commission’s position on the *South Stream* project.

On 6 December, 2013, the European Commission officially notified *Gazprom* that the treaties concluded with the members of the *South Stream* gas pipeline project were illegal. In so doing it ignored the fact that these agreements had been signed before the Third Energy Package came into force (in March 2011) and were fully in compliance with European legislation at the time. And in any case, under international law intergovernmental agreements on the *South Stream* prevail over EU legislation. The European Commission could not on its own forbid *Gazprom* to build the pipeline because the countries participating in the project had agreed to it. The problem was that the European Commission could prevent its use by launching the long procedure of eliminating violations eventually bringing the issue to the European Court of Justice. Thus, the Brussels bureaucracy demonstrated once again that taking part in anti-Russian geopolitical games under Washington’s guidance is more important for it than European energy security. Following in the footsteps of the US Administration, Brussels became aware that successful implementation of the *South Stream* project would put a stop to Ukraine’s transit manipulations and deprive Ukraine of an important lever of pressure on Russia. This time around the consumers of Russian gas—Bulgaria, Serbia,⁶ Hungary, Slovenia, Austria, Croatia and Greece—apparently did not want to bow to Brussels’ diktat. They immediately set about looking for legal ways to secure the exemption of *South Stream* on their territo-

ries from the Third Energy Package. For example, in early April 2014 the parliament of Bulgaria (the country where the pipeline emerges from sea to land) passed the first reading of a bill that partially exempts *South Stream* on the country's territory from the rules of the Third Energy Package. The Bulgarian government could have filed a billion dollar claim for the damage caused to the country's economy in the event sanctions were imposed against it. After the European Union abandoned the *Nabucco* project *South Stream* was the only option for Bulgaria to ensure gas supplies.

The latest crisis in Ukraine assumed staggering proportions because of overt political interference. Washington practically thwarted the feeble attempts of the EU to bring about a change of regime in Kiev within the legal process, which would have ensured uninterrupted transit of Russian hydrocarbons through Ukrainian territory. For the USA the "Ukrainian card" has more important geopolitical implications. All the signs are that Washington seeks to draw Ukraine into NATO and turn it into a bastion to isolate and weaken Russia, even at the cost of creating a situation of "manageable chaos" in Ukraine. The USA would then "kill two birds with one stone": deal a geopolitical blow to Russia and cause economic damage to its main rival, the EU. That is why the US engineered a putsch against the agreement between Yanukovich and the opposition with the assistance of and in the presence of EU representatives. Incidentally, Victoria Nuland of the US State Department succinctly and candidly explained the difference between Washington and the EU in a now famous telephone conversation.

By accusing Russia of interfering in Ukraine's internal affairs, the United States diverted the world's attention from the fact that it was masterminding the coup d'état in that country on a daily basis. There was a spate of American officials' visits to Ukraine (not to mention the fact that the US Ambassador was the chief "conductor of the orchestra"): Ms. Nuland, who was handing out cakes on Maidan; Senator McCain, who addressed the Maidan crowd; the CIA chief John Brennan, after whose visit the Kiev government began to use military force against the popular opposition in south-eastern Ukraine; and, finally, Vice President Joseph Biden, who carved out a niche for his son in Ukraine's oil business. Realizing the concern of the European business community and the population in general over the threat of disruption of gas transit via Ukraine, President Obama pitched in with rosy promises in March. In a speech he promised to liberalize the export of liquefied natural gas (LNG) and provide Europe with more of it than it needed. Paying lip service to the concerns of his allies in Europe, Barack Obama said: "We understand that strengthening sanctions [against Russia] will affect different countries in different ways, including the EU. The USA can already supply more gas than Europe requires. We need to agree on verifying this process and we intend to do it" [9, p. 50]. Perhaps some of the readers have not paid attention to the word "verifying," and yet it is the nub of the problem. Before promising something normal people first verify

whether the promise can be fulfilled. In his speech Obama made no mention of who would carry out the verification and when. But he knows that throughout 2015 the attention of all the Americans and a lot of people outside the US would be riveted to the elections and after the elections he would have no need to make new promises and explain away his failure to fulfill previous promises (*après moi le deluge.*) However let us take a brief look at the background to what the US President said:

- first, Obama knows that today he does not have a single ton of LNG because the first tanker with LNG for export is due to leave the *Sabine Pass* terminal in Louisiana in late 2015—early 2016 and that LNG from that terminal has been contracted for 20 years ahead;
- second, the USA does not have state-owned oil and gas corporations and the President cannot order private businesses to sell their product in the European markets if it costs 1.5—2 times more in the Asian markets;
- third, even if part of the American LNG finds its way to Europe in the medium-term perspective, it would not be able to compete in quantity and price with the Russian pipeline gas reliably supplied under long-term contracts without transit problems.

Thus, in promising to supply Europe with LNG Obama, unlike Nuland, does not even have any real cakes to hand out.⁷

President Obama and some US lawmakers who seek to push through a resolution on urgent energy assistance to Ukraine are so touchingly concerned about the problems of the EU and Ukraine that one might think everything in their own home is hunky-dory. But that is not quite the case. Here is but one example: the previous winter was extremely cold, with the eastern seaboard states (New England, New York, etc.) being hit hardest. According to *Bloomberg Businessweek*, spot prices for gas in January reached a record \$123 per thousand cubic feet. That is 35 times more than in Pennsylvania where the biggest American *Marcellus* field is located just a hundred miles away from New York. However, the building of new gas pipelines in the USA is going slowly, in spite of a dozen or so gas pipeline projects: the journal's experts believe only half of these projects will be completed by the end of 2018 [11, p. 14]. So the President and the lawmakers should be showing similar concern for the energy problems of their own taxpayers as they are for Ukraine, of whose problems many of them know only by hearsay and some cannot even locate the country on the map.

At least some Ukrainian leaders probably understand that the US cannot help them by physical supplies of gas. Nevertheless they hope that unlike the EU, the US does not depend on Russia in the energy field while being very eager to draw Ukraine into its orbit geopolitically. That is why at the trilateral Russia—EU—Ukraine talks on Ukraine's gas debt Ukraine took a negative stand presenting Russia with ungrounded and provocative claims and setting unacceptable preconditions (for example, demanding that *Gazprom* first agree on unreasonably

low prices which even EU representatives do not consider to be market prices, whereupon Ukraine would pay its debts). They ignored *Gazprom's* warning that under the contract it would switch to the prepayment scheme pumping into the transit pipeline only the amounts destined for the European countries. And then there would be a repeat of the 2009 situation when Ukraine started to openly steal gas. Kiev was undeterred by this prospect and said it would file a suit with the Arbitration Court in Stockholm where the case may drag on for months. This is exactly what Ukrainian leaders want. They know full well that when leaving his post the European Commission President José Barroso (in his reply to Putin's second message to the heads of European countries that consume Russian gas), urged continued gas supplies through the transit pipeline as long as negotiations on Ukraine's debt were in progress. He was obviously playing up to the Ukrainian leaders who were deliberately dragging out the talks. At the same time it was his parting service to Washington, an attempt to create a semblance of a pretext for another wave of sanctions against Russia if *Gazprom* in accordance with the contract with Ukraine introduced the prepayment scheme. Surprisingly, the fact that debt and gas price talks are stalled does not prevent Ukraine from happily accumulating free Russian gas in its storage facilities.

In conclusion we would like to go back to Giuseppe Guarino's book and stress not only the fact that the foregoing bolsters the Italian professor's argument in stating the negative consequences of the diktat of the Brussels bureaucracy within the EU, but that it deals another blow at the Maastricht and Lisbon Treaties in terms of international politics and economics. Both treaties are aimed at turning the EU into a credible rival of the United States in the emerging multipolar world. The Brussels bureaucracy has blocked the EU's movement in that direction having become a docile tool of the US geopolitical strategy while its diktat in the sphere of energy security aggravates the European Union's crisis almost putting it on the brink of collapse.

The recent years have seen the steady growth of what is called Euro-skepticism. An alarming symptom of this disease was highlighted in late May of 2014 during elections for the European Parliament. In four out of 22 EU countries the anti-EU parties won the biggest number of votes (France, Britain, Denmark and Greece). In spite of the panicky headlines and alarmist words of some politicians calling the election results a "shock" and an "earthquake" the results cannot dramatically influence the character of the European Parliament, but they may greatly complicate its work. So far this is the first "wake-up call" for the European Union.

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Notes

- ¹ The main content of the professor's concept is set forth in [1].
- ² In 1960 the USSR produced 45.2 billion cubic meters of gas (of which 24.4 billion cubic meters were produced in RSFSR proper), by 1970 the output rose to 198 billion cubic meters (83.3) and by 1980 to 435.2 billion cubic meters (154). See [2, p. 206].
- ³ Byelorussia, Norway, Iceland and Australia failed to ratify the Treaty and the USA and Canada did not even sign it, though this did not prevent Washington from openly and actively interfering in the energy relations between Russia and the European Union at a later stage.
- ⁴ Ukraine, like other CIS countries that imported Russian gas, de facto enjoyed multi-billion subsidies receiving gas at 40% of the price of the same gas for Europe. See [2, p. 411].
- ⁵ Today, eight years on, an observer of the turmoil in Ukraine and the Western maneuvers cannot help noticing striking similarities in the behavior of all the protagonists (the USA, Brussels and Ukrainian leaders) over the gas problem. Thus, the President of the European Commission José Manuel Barroso wrote in a reply to Putin that as long as the trilateral gas talks between the EU, Rus-

sia and Ukraine continued gas flows should not be interrupted [3]. Encouraged by Barroso's backing Ukraine is dragging its feet over the issue of its debt.

- 6 Serbia is not a member of the EU and is an observer with the Energy Charter.
- 7 Unlike the popular mass media, some specialized journals take a more realistic view of the US ability to solve the energy problem of Europe and Ukraine. For example, *Petroleum Economist* wrote that in the short term the US could do nothing to supply LNG to Europe and Ukraine because the first gas tankers would only be able to sail from the shores of Louisiana in a couple of years' time. And there is no guarantee that even after that substantial amounts of LNG would be delivered to continental Europe, not to speak of Ukraine [10, p. 8].

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