

By Peter Zeihan

At the time of this writing, the natural gas crisis in Europe was entering its 13th day.

While the topic has only penetrated the Western mind as an issue in recent years, Russia and Ukraine have been sparring about the details of natural gas deliveries, volumes, prices and transit terms since the Soviet breakup in 1992. In the end, a deal is always struck, because Russia needs the hard currency that exports to Europe (via Ukraine) bring, and Ukraine needs natural gas to fuel its economy. But in recent years, two things have changed.

First, Ukraine's Orange Revolution of 2004 brought to power a government hostile to Russian goals. Ukrainian President Viktor Yushchenko would like to see his country integrated into the European Union and NATO; for Russia, such an evolution would be the kiss of death.

Ukraine is home to most of the infrastructure that links Russia to Europe, including everything from pipelines to roads and railways to power lines. The Ukrainian and Russian heartlands are deeply intertwined; the two states' industrial and agricultural belts fold into each other almost seamlessly. Eastern Ukraine is home to the largest concentration of ethnic Russians and Russian speakers anywhere in the world outside Russia. The home port of Russia's Black Sea Fleet is at Sevastopol on Ukraine's Crimean Peninsula, a reminder that the Soviet Union's port options were awful - and that Russia's remaining port options are even more so.

Ukraine hems in the south of European Russia so thoroughly that any hostile power controlling Kiev could easily threaten a variety of core Russian interests, including Moscow itself. Ukraine also pushes far enough east that a hostile Kiev would sever most existing infrastructure connections to the Caucasus. Simply put, a Ukraine outside the Russian sphere of influence transforms Russia into a purely defensive power, one with little hope of resisting pressure from anywhere. But a Russified Ukraine makes it possible for Russia to project power outward, and to become a major regional - and potentially global - player.

The second change in recent years is that Russia now has an economic buffer, meaning it can tolerate a temporary loss in natural gas income. Since Vladimir Putin first came to power as prime minister in 1999, every government under his command has run a hefty surplus. By mid-2008, Russian officials were regularly boasting of their \$750 billion in excess funds, and of how Moscow inevitably would soon become a global financial hub. Not surprisingly, the 2008-2009 recession has deflated this optimism to some extent. The contents of Moscow's piggy bank already have dropped by approximately \$200 billion. Efforts to insulate Russian firms and protect the ruble have taken their financial toll, Russia's 2009 budget is firmly in deficit, and all talk of a Russian New York is on ice.

But Russia's financial troubles pale in comparison to its neighbors' problems - not in severity,

but in impact. Russia is not a developed country, or even one that, like the states of Central Europe, is seriously trying to develop. A capital shortage simply does not damage Russia as it does, say, Slovakia. And while Russia has not yet returned to central planning, rising government control over all sources of capital means the Russia of today has far more in common economically with the Soviet Union than with even the Russia of the 1990s, much less the free-market West. In relative terms, the recession actually has increased relative Russian economic power - and that says nothing about other tools of Russian power. Moscow's energy, political and military levers are as powerful now as they were during the August 2008 war with Georgia.

This is a very long-winded way of saying that before 2004, the Russian-Ukrainian natural gas spat was simply part of business as usual. But now, Russia feels that its life is on the line, and that it has the financial room to maneuver to push hard - and so, the annual ritual of natural gas renegotiations has become a key Russian tool in bringing Kiev to heel.

And a powerful tool it is. Fully two-thirds of Ukraine's natural gas demand is sourced from Russia, and the income from Russian natural gas transiting to Europe forms the backbone of the Ukrainian budget. Ukraine is a bit of an economic basket case in the best of times, but the global recession has essentially shut down the country's steel industry, Ukraine's largest sector. Russian allies in Ukraine, which for the time being include Yushchenko's one-time Orange ally Yulia Timoshenko, have done a thorough job of ensuring that the blame for the mass power cuts falls to Yushchenko. Facing enervated income, an economy in the doldrums and a hostile Russia, along with all blame being directed at him, Yushchenko's days appear to be numbered. The most recent poll taken to gauge public sentiment ahead of presidential elections, which are anticipated later this year, put Yushchenko's support level below the survey's margin of error.

Even if Yushchenko's future were bright, Russia has no problem maintaining or even upping the pressure. The Kremlin would much rather see Ukraine destroyed than see it as a member of the Western clubs, and Moscow is willing to inflict a great deal of collateral damage on a variety of players to preserve what it sees as an interest central to Russian survival.

Europe has been prominent among these casualties. As a whole, Europe imports one-quarter of the natural gas it uses from Russia, and approximately 80 percent of that transits Ukraine. All of those deliveries now have been suspended, resulting in cutoffs of various degrees to France, Turkey, Poland, Germany, Italy, Hungary, Romania, Austria, the Czech Republic, Greece, Croatia, Macedonia, Bosnia, Serbia and Bulgaria - in rough order of increasing severity. Reports of both mass power outages and mass heating failures have been noted in the countries at the bottom half of this list.

A variety of diversification programs have put Europe well on its way to removing its need for Russian natural gas entirely, but these programs are still years from completion. Until then, not much can be done for states that use natural gas for a substantial portion of their energy needs.

Unlike coal, nuclear energy or oil, natural gas can be easily shipped only via pipeline to previously designated points of use. This means the decision to link to a supplier lasts for decades and is not easily adjusted should something go wrong. Importing natural gas in liquid

form requires significant skill in cryogenics as well as specialized facilities that take a couple of years to build (not to mention a solid port). Alternate pipe supply networks, much less power facilities that use different fuels, are still more expensive and require even more time. All European countries can do in the immediate term is literally rely upon the kindness of strangers until the imbroglio is past or a particularly creative solution comes to mind. (Poland has offered several states some of its share of Russian natural gas that comes to it via a Belarusian line.) Some Central European states are taking the unorthodox step of recommissioning mothballed nuclear power plants.

Because Russia's goal in all this is to crack Kiev, there is not much any European country can do. But one nation, Germany, is certainly trying. Of the major European states, Germany is the most dependent upon Russian resources in general, and energy in particular.

German Chancellor Angela Merkel and Putin spent three nights this past week on the phone with each other discussing the topic, and the pair has a two-day summit set for later this week. The Germans have three primary reasons for cozying up to the Russians at a time when it seems they should be as angry as anyone else in Europe.

First, because most of the natural gas Germany gets from Russia passes not through Ukraine, but through Belarus - and because the Russians have not interrupted these secondary flows - the Germans desperately want to avoid rocking the boat and politicizing the dispute any more than necessary. The Germans need to engage the Russians in discussion, but unlike most other players, they can afford not to be accusatory, because they have not been too deeply affected so far. (Like all the other Europeans, the Germans are working feverishly to diversify their energy supplies away from Russia, but while Berlin can keep the lights on, it doesn't want to ruffle any more feathers than it needs to.)

Second, as any leader of Germany would, Merkel recognizes that if current Russian-Western tensions devolve into a more direct confrontation, the struggle would be fought disproportionately with German resources - and perhaps even on German soil. Germany is the closest major power to Russia and would therefore be the focus of any major action, Russian or Western, offensive or defensive. France, the United Kingdom and the United States enjoy the buffer of distance - and in the case of the last two, a water buffer to boot.

German national interest, therefore, is not to find a way to fight the Russians, but to find a way to live with them. Germany traditionally has been Russia's largest trading partner. Every time the two have clashed, it has been ugly, to say the least. In the German mind, if Ukraine (or perhaps even adjusting the attitude of Poland) is what is necessary to make the Russians feel secure, so be it.

Third, Germany has a European angle to think about. To put it bluntly, Merkel is always on the lookout for any means of easing Germany back into the international community with a foreign policy somewhat more sophisticated than the "I'm sorry" that has reigned since the end of World War II. After the war, France successfully hijacked German submission and used German economic strength to achieve French political desires. Since the Cold War's end, Germany has slowly wormed its way out of that policy straitjacket, and the natural gas crisis raises an

interesting possibility. If Merkel's discussions with Putin result in restored natural gas flows, then not only will Russia see Germany as a partner, but Germany might win goodwill from European states that no longer have to endure a winter without heat.

Still, it will be a tough sell: the European states between Germany and Russia have always lived in dread that one power or the other - or, God forbid, both - will take them over. But Germany is clearly at the centre of Europe, and all of the states affected by the natural gas crisis count Germany as their largest trading partner. If Merkel can muster sufficient political muscle to complement Germany's economic muscle, the resulting image of strength and capability would go a long way toward cementing Berlin's re-emergence.

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