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Russian bear sets a trap

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Have you noticed New York residents do not fear a cutoff of their natural gas supplies because of a potential political or economic dispute with Texas? But envision a scenario where the State of Texas owned all of the natural gas in that state and the distribution network to other states, and where the governor of Texas decided to ignore pre-existing contracts in order to force New Yorkers to pay more for their gas since they were totally dependent on the Texas monopoly.

Fortunately, in the U.S., the above scenario could not play out because: there are many private suppliers of gas in the State of Texas; the pipelines that carry the gas to New York are privately owned and separate from the gas producers; and, most importantly, the state and federal courts enforce the rule of law and protect pre-existing contracts.

But now another question: Would you agree to have a major and critical portion of your gas supplies controlled by a monopoly state producer that also controls the pipelines and has at times ignored or reneged on existing contracts? If you are a prudent person, you would probably respond by saying, "No way."

Unfortunately for the Europeans, a number of their governments are cementing a relationship with Vladimir Putin's Russia which, in effect, will make them hostages of the Russian bear. Russia already accounts for 26 percent of Europe's gas imports. It accounts for 44 percent of Germany's gas imports, 60 percent of Poland's, 63 percent of Austria's, and 100 percent of Finland's. Russia is now building a new gas pipeline from Russia through the Gulf of Finland and down through the Baltic Sea directly to Germany, bypassing the existing pipelines that go through Ukraine, Belarus and Poland. As European natural gas sources are depleted, Europe will depend increasingly upon Russia.

If Russia were truly a free market democracy that practices the rule of law, with many private Russian gas producers competing for Europe's consumers, there would be little cause for concern. Americans do not worry about being dependent on Canada for a significant portion of their oil imports, because most of it is provided by private companies and democratic Canada maintains the rule of law.

Russia, however, is a very different story. President Putin has refused to ratify the treaty that would require Russia to open its gas pipelines to third parties and end the monopoly supply position of Russia's state-owned Gazprom. Poland and Lithuania are the only European countries insisting that Russia sign the agreement (to which Russia committed

itself in 1994) as a condition to expanding European-Russian trade. The Poles and the Lithuanians are likely to be forced to acquiesce to their larger European neighbors who tend to only think about short-run gains rather than long-term consequences.

Russia has already shown itself an unreliable energy supplier, despite its claims to the contrary. As recently as last winter Russia cut off gas shipments to Ukraine, and Ukraine responded by siphoning off gas destined for the European Union.

Despite the West's hope that Russia would continue evolving into a true free-market democracy under the rule of law, any objective viewer can easily see the drift backward.

Critics of the Putin regime have a continuing, uncanny ability to get murdered. According to the London Times, "Britain's intelligence agencies claimed that the poisoning of the Russian dissident Alexander Litvinenko bore the hallmarks of a state-sponsored assassination." This seems a reasonable conclusion, in part, because the typical killer does not poison his victims with radioactive polonium-210.

Many Russian journalists who were critics of Mr. Putin, such as Anna Politkovskaya and the editor of Forbes' Russian edition Paul Klebnikov, have recently been gunned down in "unsolved" murders.

The number of elective offices has been systematically reduced under Mr. Putin, and Russia is slowly moving back to an almost one-party state (this time without communist ideology). Key sectors of the economy, such as oil and gas, are in effect being renationalized. Many foreign companies find that what they had thought were binding contracts are suddenly being opened to "renegotiation."

Last week, it was announced that Gazprom was buying Russia's most popular newspaper, Komsomolskaya Pravda. The Putin government has brought most of the electronic and print media under the control of state companies or Kremlin-dependent businessmen.

Mr. Putin is smart. He realizes the European leaders are weak, and merely the implicit threat to cut gas supplies will be enough to have them do much of his bidding. He is also aided by those in the West who rationalize his behavior, much as the New York Times' Walter Duranty became Josef Stalin's cheerleader in the 1930s.

An insightful Brit noted that "Blair would love to see the Litvinenko murder investigation just disappear because now that Tony announced he is leaving he needs a job and Putin might help." After all, Mr. Putin (through Gazprom) did hire former German Chancellor Gerhard Schroeder for several million dollars.

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