

The Treads of Russia's Gas Tank

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A few days ago, Ukrainian President Viktor Yanukovich made the remarkable statement that, by mining its own shale gas deposits, Ukraine would end its dependence on Russian gas by 2020 and even vie with Gazprom on the European gas market.

Frankly, Yanukovich's statement should be taken with a grain of salt — just like some pronouncements by the presidents of Russia and Zimbabwe. But the trend he refers to is clear. The gas and trade wars that the Kremlin has repeatedly unleashed against members of the Commonwealth of Independent States have failed to increase respect for Russia or its

geopolitical influence. Just the opposite. Those conflicts have shattered whatever respect Russia still enjoyed and forced regimes of every stripe — democratic, authoritarian and nearly dysfunctional — to do everything possible to end dependence on Russia.

President Vladimir Putin has consistently shown that to have dealings with Russia is to be dependent on Russia. Nothing illustrates this better than the example of natural gas.

The Kremlin's euphoria over gas began in 2005, the year after Russia signed an agreement with Germany for the construction of the Nord Stream pipeline. At the time, Berlin must have thought, "Gas is gas, and if Russia is offering favorable terms, why not sign a deal?" But the Kremlin soon began speaking of Russia as an "energy superpower" and its huge gas reserves as an "energy weapon." Russia envisioned the pipeline as a sort of enormous handle giving it leverage against Europe.

The Europeans were shocked to hear such things. After all, if a man walks into a sporting goods store and asks for a baseball bat, the clerk will sell him one on the assumption that he intends to go play baseball with it. But if the man raises the bat and threatens to pound everyone in the store with it, the clerk will probably think twice before selling him another.

Worse, the Kremlin not only boasted of its "energy weapon." It actually used it. With its endless gas wars against Ukraine and Belarus, Russia has demonstrated to an astonished Europe what happens to countries that become dependent on Russian gas. During Putin's reign, Gazprom's share of the European gas market has dropped from 39 to 25.6 percent and is falling, even with rising production costs.

The Kremlin attempted to recoup losses in the European market with higher tariffs on gas exports to former Soviet republics. In response, Lithuania filed a lawsuit against Gazprom seeking 1.5 billion euros (\$2.03 billion) in compensation for inflated rates.

All of the Kremlin's Napoleonic plans were based on the assumption that gas is a sort of philosopher's stone that Russia alone possesses and that others would have to pay whatever price Moscow demanded for it. In fact, gas is just a commodity, and its price is determined by market forces. When the price from one supplier becomes too high, the market finds another supplier or a comparable product. In this case, the alternative product is shale gas.

Putin's mistake was to not simply sell gas but to use gas as an attempt to demonstrate Russia's superiority and foreign states' dependence. But long-term dependence on a single supplier is uncharacteristic of free markets. If shale gas had not been developed, some other substitute would have been found.

Natural gas should never be confused with tanks. It is crazy to think that Russia could trample Europe under the treads of its "gas tank" and imagine that Europe would gladly pay for the privilege.

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