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US Sanctions on Russia and the Battle for Oil and Natural Gas. Impacts on Global Energy Security

By Igor Alexeev
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After a series of headline-grabbing statements about the possibility of "switching" European consumers over to American gas, the US media hastened to announce the launch of Obama's oil and gas offensive against Russia. In reality the EU is not currently prepared, neither technically nor in terms of price, to buy its energy resources from the US. It would take at least ten years to adapt even the technically advanced German energy system to work with American gas supply. In a crisis, when it is particularly urgent to see a quick return on an investment, such projects are unrealistic.

Whether German industry is ready to pay more for gas from overseas just for the dubious pleasure of "punishing" someone is a big question. Unlike EU officials, the German government is not publicly calling into question either its long-term contracts with Russia or the future of the South Stream pipeline. On March 13, 2014, the chairman of the board of Gazprom, Alexei Miller, attended a meeting with the Vice-Chancellor and Minister of Economics and Energy of Germany Sigmar Gabriel. "Germany is Russia's number one partner in Europe's gas and energy market," Miller stated. "Russian gas accounts for 40% of all German imports. And we're also noting an upwards tick in the quantity of gas supplies coming from Russia. Last year, shipments totaled more than 40 billion cubic meters and we've seen a 20% annual increase." Looking at these statistics, it's clear that all the talk about Atlantic solidarity is having zero effect on the German government's rational decision making. "We don't need conflict escalation", said Sigmar Gabriel during an expert roundtable on energy policy later in March. "Russia met its obligations under the gas contracts even in the darkest years of the Cold War".

Sigmar Gabriel knows what he's talking about. For Europe to be able to fully utilize gas supplies from the US, it will be necessary to build expensive facilities to decompress and store the gas. Moreover, in order to incorporate the "American" gas into the existing local energy systems, the European countries would need to construct new pumping stations. The associated infrastructure will further add to the price for the end consumer. Neither the bosses of the German industry nor the responsible political leaders will support such policy.

So who's behind the demands that Russia be punished?

Barack Obama continues to look outside of Europe for ways to pressure Moscow. It is no coincidence that the US president's recent statements on energy policy coincided with his visit to Saudi Arabia. President Obama came to Riyadh to bring down prices in exchange for the development of Saudi Arabian facilities to extract and liquefy gas for delivery to Europe. It's unlikely that even Charles Maurice de Talleyrand himself could have persuaded the

Saudis to dump as many resources as possible onto the market in exchange for the nebulous promise of American help to obtain new gas facilities at some unspecified date in the future.

Qatar's position needs to be kept in mind too. There are serious personal disagreements between the Saudis and the hypersensitive former emir of Qatar as no one in the Middle East needs a new competitor in the gas industry. Obama's attempt to repeat Ronald Reagan's oil trick in the Middle East and "shake down" global prices will face many obstacles. A hike in oil prices below $80 would expose yet another issue that was a real controversy during Obama's reelection campaign, namely – what to do about Iraq. Even a 10% drop in oil prices would finish off the Iraqi economy, still reeling from the US invasion. And Israel is closely monitoring the White House's attempts to initiate a rapprochement with Iran. If Uncle Sam tries to levy energy sanctions against Russia using his political positions in the Middle East, he will quickly find he has loaded a gun only to shoot himself in the foot.

The US Secretary of Energy, *Ernest Moniz*, an Obama appointee and shale enthusiast, has jumped right into the discussion of "punishing" Russia. He promised to consider new efforts to ship LNG from the USA to Europe. In this particular case his verbal intervention is unlikely to reflect the position of the CEOs of the oil majors. They know very well that the industry's real break-even points are nowhere near where they were 30 years ago due to inflation and higher operation costs. Today one facility—Cheniere's $10 billion Sabine Pass terminal in Cameron Parish—has the required approvals from the Energy Department and U.S. Federal Energy Regulatory Commission.

In early March, the American economist *Philip Verleger,* who worked in the White House and the US Treasury in the 1970s, spoke as an expert on the issue of using energy as way to "punish" Russia. In the March 3, 2014 newsletter that he publishes for his clients, Verleger wrote that the US has a tool it can use to influence Russia – its Strategic Petroleum Reserve (SPR). US Reserve currently contains almost 700 million barrels of oil, five million of which were unloaded onto the market during the Washington visit of the interim Ukrainian Prime Minister Arseniy Yatsenyuk. "It almost defies logic to think there isn't a link," noted John Kingston, the director of Platts' news division. Tapping the SPR to manipulate the global market would be a highly extraordinary decision. The only way to exert any real pressure on global oil prices would be to open up at least 50% of the entire SPR and grant export licenses to anyone who wanted one. The American DoE is obviously not ready for such draconian measures.

Looking at the 2014 report written by the DoE analysts who are known for their almost religious faith in alternative energy, the minimum price for oil in 2015 will be $89.75/barr. The Russian national budget in 2014, which was saddled with expenses related to the Olympics, was drawn up based on an average price of $93 per barrel. Ergo, even $80-90 would hardly spell disaster for Moscow, much less $100 a barrel. In addition, the "nonmarket" pressure by the US could be balanced by the exporter nations. For example, the idea of "energy currency" has long been a hot topic within OPEC and the Gas Exporting Countries Forum (GECF).

For the first time ever in the history of US-Russian relations we are seeing a public debate about a threat of economic sanctions that may have a long-range negative effect on global energy security. The Obama administration acts as if it is guided by a chapter out of an old Soviet textbook on political economy. At the moment, apparently, the sacred dogma of the free market, from Samuelson to Friedman, can be conveniently overlooked for the sake of punishing a sovereign nation. When the head of the most influential state in the world talks about manipulating market prices to punish recalcitrant players, what kind of "global free market" and fair play are we really talking about?

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