Risks producers and consumers

**Developing awareness that tensions exist between energy producers and consumers, and that these can result in increased risk (rising costs) and conflict.**

**Background:**

• Tensions between Russia and Ukraine have been high since 2004, when pro-Western forces led by President Viktor Yushchenko won control of the government over Viktor Yanukovych, a Moscow ally. Russia also opposes Ukraine’s desire to join the North Atlantic Treaty Organization and the EU.

• The EU gets a quarter of its gas supplies from Russia - 80% of which passes through Ukraine

**What sparked the crisis?**

• Ukraine and Russia have faced negotiations over the renewal of gas supply contracts every year, but by midnight on 31 December 2008 they had failed to agree on the price Kiev should pay in 2009.

• This has happened 3 times before but this year, gas supplies were completely halted from 7 January, after Russia accused Ukraine of siphoning off gas meant for European customers, leaving more than a dozen countries without their expected supplies of Russian gas.

• The European Union called the supply cut "completely unacceptable", demanded immediate restoration and entered into shuttle diplomacy between Kiev and Moscow.

• A deal reached on 12 January, whereby EU and Russian observers would monitor supplies across Ukraine collapsed within hours. The EU said both sides had failed to meet its terms.

• The two countries also failed to agree on a price Russia would pay Ukraine for gas transit to Europe.

**Impacts:**

• Some, like Bulgaria, Serbia and Bosnia, are almost completely dependent on supplies via Ukraine and so were left with major shortages, during a very cold spell in Europe.

• In the meantime European countries had to shut down industrial plants and domestic heating systems, find alternative sources of gas or switch energy plants to oil. Schools were shut and people had to revert to using log fires to heat their homes.

**Europe’s energy security – should they be worried?**

Yes: The amount of gas Russia supplies to Europe means that any disruptions have large-scale impacts

No: Even during the Cold war the supply of Russian gas was stable and the Europe is now looking to enhance its energy security through:

• Reducing its dependence on Russia—building of the South Caucasus pipeline supplying gas from Azerbaijan via Turkey, bypassing Russian territory altogether

• Press Russia and Ukraine to sign long-term contracts, with accepted pricing formulae, similar to those that Gazprom already has with most EU countries.

• Diversify its sources of energy, something that it must do anyway if it is to meet its ambitious climate-change targets.

**Potential Exam Question: Russia uses its oil and gas as a political and economic weapon. Discuss**

**Over to you:**

* Why are the Gulf of Aden and the Straits of Malacca focus points for pirate attacks?
* To what extent can supply routes be made secure?
* Examine the different risks associated with the disruption of energy supplies
* How else can energy supplies get disrupted? Are these threats on the rise?
* Explain the costs and benefits of the Trans Alaska pipeline or Keystone XL pipeline