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By M K Bhadrakumar

Buried beneath the heaps of hot words on North Korea's nuclear test, the announcement in Moscow on Monday about the Shtokman natural-gas deposit off Russia's Arctic coast almost escaped attention, despite its comparable lethal fallout in world politics.

Undoubtedly, Gazprom's statement shook up the world energy scene - and the calculus of European politics. Gazprom, the Russian gas monopoly, announced that it would develop on its own without foreign companies the fabulous Shtokman deposit, holding an estimated 3.2 trillion cubic meters of natural gas and 31 million tonnes of gas condensate in the Barents Sea, 360 kilometers off the coast, at a depth of 320 meters.

Gazprom headquarters in Moscow

And most significant, Gazprom also said it would send most of the gas from the giant Arctic Shtokman field to Europe, rather than to the United States.

Shtokman was initially expected to yield 30 billion cubic meters (bcm) of natural gas annually, of which 22-24bcm would be converted into 15 million tons of liquefied natural gas (LNG) to be exported by ship to the US. With design capacity achieved, the field will be able to produce 70-90bcm, which is more than, say, Norway's entire annual output.

It is estimated that the first stage of the project alone requires an investment of US$12 billion to $14 billion. The shortlist of companies competing for the project included Norway's Statoil and Norsk Hydro, France's Total, and US giants Chevron and ConocoPhillips.

Gazprom was considering giving 49% of the Shtokman project to foreign companies, but its chairman, Alexei Miller, stated in Moscow on Monday, "Foreign companies failed to offer assets commensurate with the volume and quality of the Shtokman deposit's reserves." Gazprom will now instead consider appointing foreign companies as "contractors".

The Shtokman field

The Gazprom announcement came as a bombshell on the eve of President Vladimir Putin's visit to Germany on Tuesday - the fifth Russian-German summit this year - and confirmed Putin's sensational statement in Compiegne, France, on September 23 at the trilateral French-German-Russian summit that Gazprom may decide to redirect a part of Shtokman gas to the European markets.

The Gazprom decision signifies a complete reversal of policy insofar as North America was intended to be the project's main destination. (The Shtokman gas deposit has enough gas for 50 years of deliveries to the US.)

In fact, at a meeting with US President George W Bush in Washington last October, Russian Industry and Energy Minister Viktor Khristenko was on record that "I think two or three companies should be chosen in the end [for Shtokman] and the selection will largely depend on how effective their programs are for long-term presence on the American market", because "the first phase of the Shtokman project will target the US market only". The project figured in the Russian-US political consultations at the highest level in the recent years, including through influential back channels.

Monday's Gazprom announcement said that Shtokman gas would now be sent mostly through the North European Gas Pipeline that is being constructed under the Baltic Sea with German collaboration, rather than shipped as liquefied gas to the US as originally planned. This decision, the statement said, was "proof that the European market is the most important for the company".

Moscow daily Pravda said that by this decision, Putin is creating a "new axis in Europe to oppose US hegemony". The newspaper commented, "It is an open secret that Russia, France and Germany stand against the establishment of the unipolar world structure."

At any rate, speaking at a joint press conference in Compiegne on September 23 in the presence of Merkel and French President Jacques Chirac, Putin dwelt on Russian-French-German trilateral cooperation. He said: "This tripartite format is both in demand and produces positive results in practice. We see this format as a good and reliable mechanism to coordinate approaches and develop joint initiatives in the spirit of our strategic partnership."

Interestingly, Putin also revealed that Moscow's decision to supply gas from Shtokman deposits to Europe emanated out of a suggestion from Merkel "not so very long ago". Putin pointed out that about 55bcm of gas to Germany were being delivered annually by Russia at present, while the supply from Shtokman alone could turn out to be 25-45bcm of gas per year.

Putin said, "You can imagine what kind of quantities we are talking about here, and what this would mean for the European economy and for the German economy. This deposit has enough reserves to ensure supplies for 50-70 years. This creates an absolutely stable and sustainable situation in the economy and on the European energy market, above all in the energy sector in Germany."

Bush and Putin

The Russian-German "axis" in energy came into even sharper focus during Putin's subsequent two-day visit to Germany this week. Speaking in Dresden in the presence of Merkel, Putin said, "Judging from all appearances, our [Russian-German] cooperation could be even more large-scale, as a result of which Germany could turn from a simple consumer of Russian gas and oil to a large center for the European distribution of these products."

Putin underlined the strategic significance of the Russian-German partnership by saying, "We are linked by the common goals of building a unified and prosperous Europe, dedication to the principles of building a just world order, and the aim of effectively countering international challenges and threats."

Western commentators have rightly analyzed that the Gazprom decision on Shtokman ought to be viewed against the background of the broader increase in perceived US hostility toward Russia. The point is, Gazprom's decision hits US interests hard. There cannot be two opinions about that.

Shtokman gas would have diversified US suppliers, now mostly in the Middle East, Africa, and Trinidad and Tobago. Participation in the project would have been highly profitable business for US oil majors.

The Bush administration had strongly pitched for the award of the project to US oil majors. Many would have thought that the administration's pressure tactics vis-a-vis Moscow in the past year or two were in actuality in the good old American Wild West tradition of hedging the Kremlin toward making decisions that favored the US oil majors interested in securing a major chunk of the business spinoff from the vast Shtokman deposit.

Thus the Wall Street Journal described the Russian decision as a "snub to Washington". In recent months alone, Moscow has seen acts of hostility in Washington's policy toward Russia on several fronts. Moscow is greatly frustrated at what it perceives as Washington's foot-dragging on the deal involving Russia's membership in the World Trade Organization. The contrived nature of recent US sanctions against the Russian arms industry irritated Moscow as they were patently aimed at warding off the growing challenge to US arms exports.

Certainly, Moscow has been annoyed by the calibrated Anglo-American campaign in recent weeks against Gazprom's move to acquire a 25% stake in the Sakhalin 2 project, Russia's first LNG venture, in which Shell holds a 55% share (as per a 1994 agreement when oil was selling at $20 per barrel and Boris Yeltsin was ruling Russia).

In a provocative move, a US Energy Department spokesman waded into the controversy by saying on September 21 in Washington, "We hope that the government [of Russia] and these multilateral corporations are able to reach agreement in a way that respects the rule of law, continues to provide oil to the markets and demonstrates that Russia is open to foreign investment."

The Guardian newspaper warned that the controversy prompted a British demarche and "could spark a diplomatic row" between London and Moscow. A Downing Street spokesman was quoted as saying on September 24, "The government is raising its concerns about the decision with the Russian government. Downing Street is following this very closely."

Again, Moscow openly blamed Washington for encouraging the anti-Russia policies of the Georgian leadership of Mikhail Saakashvili. In a formal letter addressed to the Organization for Security and Cooperation in Europe in the context of Russia's recent spy scandal with Georgia, Putin refuted the organization's pretensions of playing (at Washington's instance) a mediatory role in Russian-Georgian relations.

Similarly, North Atlantic Treaty Organization expansion into the territory of the former Soviet republics continues to simmer as a major factor in Russian-US relations. On September 22, the Russian Foreign Ministry warned in a statement, "The accession of Georgia to the current unreformed NATO structure would seriously affect Russia's political, military and economic interests, and would have a negative impact on the fragile situation in the Caucasus."

The statement added, "Any kind of NATO expansion results in considerable changes in the security outlook. But the case with Georgia is of particular importance due to its geographical proximity to Russia, and because of its obvious complicity in Caucasian problems."

Equally, Moscow's response has been sharp about the US move to deploy elements of the US national-defense missile system in Poland and the Czech Republic. Moscow does not buy the specious US plea that it is deploying the silo-based interceptor missiles in these countries as part of the "war on terror".

Symptomatic of the prevailing climate of Russian-US relations, a document has been circulating in Moscow circles lately titled "On the Probable Scenario of Actions of the United States in Relation to Russia in 2006-2008". Authored by Valentine Fallin, prominent Soviet historian-diplomat and formerly secretary of the Communist Party central committee, and Gennadiy Yevstafsyev, retired general of the Foreign Intelligence Service, the 35-page analytical report circulated among members of the duma (parliament) claims that Washington is conspiring to stage a "color revolution" in Russia during the transition from the Putin presidency.

The report judges that if the Bush administration's hostile policies toward Russia have remained frustrated so far, that is because of the Kremlin's energy diplomacy and political independence; the popular Russian mood; the reevaluation of values by the Russian political elite in relations with the West; and the search for a new identity where the elite has begun defending Russian national interests.

Without doubt, Gazprom's decision regarding

Shtokman reflects the Kremlin's sense of frustration that any real thaw in the current chill in Russian-US relations is not to be expected in the near future. The Gazprom decision reflects at the same time the mood in Moscow not to cave in to US pressure.

In this regard, Foreign Minister Sergei Lavrov assertively stated Moscow's policy line in a major speech at the World Affairs Council in Los Angeles in September. Lavrov said: "My opinion is that the rapid pace at which Russia has been rebuilding its independence in foreign policy is one of the factors that has put a strain on our relations, as too many people in the US have yet to get accustomed to it."

Lavrov made it clear that this was not a pitiable Russian lament. He said, "But it is necessary to get used to it [Russia's independent foreign policy]. After all, we take for granted the US's independence in choosing the instruments to defend its national interests on the world stage."

Elsewhere in the speech, Lavrov said "flexible alliances" were needed to resolve international problems more efficiently, unlike the alignments of the Cold War era, "which are no longer capable of responding to changing realities". Arguably, the diversion of the Shtokman gas for Europe; the emergence of Germany as the hub of Russian energy supplies for Europe; the format of the trilateral Russian-French-German cooperation - all these are elements of this Russian policy of forging "flexible alliances" with countries of Old Europe, with which it has a convergence of interests as regards a multipolar world.

The tenacity of Russia's incipient "flexible alliance" with France and Germany in the coming period will be of great interest for Washington's trans-Atlantic concerns. Washington draws comfort that Chirac's presidential term is ending next year.

Chirac has translated his warm friendship with Putin into state policy. After their meeting on September 23, Chirac conferred on Putin the Legion of Honor, the highest French state award. Chirac said on the occasion that France highly valued Putin's contribution toward developing the two countries' multi-faceted cooperation.

Washington has viewed with dismay Chirac's "complicity" in the recent purchase of a 5% stake by Russia's Vneshtorgbank in a highly sensitive sector of the European industry - European Aeronautic Defense and Space Co.

Washington has been hopping mad about Russia's accelerating energy integration with France and Germany. The entire agenda of Washington acting as a negotiator on the European Union’s energy dealings with Russia is coming unstuck - and, with it, Washington's aspirations to perpetuate its trans-Atlantic leadership role in the post-Soviet era.

Plainly speaking, Gazprom's decision on Shtokman implies that as of today there are no major plans in the Russian energy sector aimed at the US market. This is a dismal legacy for the Bush administration, which is supposed to be tied to the US oil industry by the umbilical cord. More to the point, this comes at a juncture when, flush with funds, Moscow is embarking on several new gas-production projects in the Far East, the Yamal Peninsula, the Arctic Shelf and other areas. US oil majors are simply being kept at arm's length from Russia's massive oil and gas reserves.

Moscow has evidently estimated that from a strategic angle, in the prevailing climate of Russian-US relations, it is prudent not to get entangled with Washington in the sensitive sphere of energy that is so central to Russia's resurgence as an effective player on the world stage.

The United States' energy-security concerns, on the other hand, will suffer if Russia remains focused on the markets in Europe and the Far East. The European market is steadily growing. In 2005, EU countries consumed about 470bcm of natural gas, while by 2010, according to the International Energy Agency, consumption is to reach 610-640bcm. The EU's policy of tough restrictions on greenhouse-gas emissions under the Kyoto Protocol, as well as the inability of renewable energy resources to compete with traditional sources, will also cause an increase in natural-gas consumption in Europe.

Forecasts for 2020 show that the EU's dependence on natural gas will grow from its present 40% to 70-80%, and Russian gas exports to the EU in the same period will increase from 26% at the moment to 40-50%. This high level of dependence cannot but compel EU countries to enhance their level of political interaction with Russia.

Washington had counted on the change in German leadership as being a good thing for slowing down the emerging Russian-German energy (and political) axis. There were expectations in Washington that Merkel would put the brake on Germany's cooperation with Russia. The Bush administration passionately wooed Merkel toward this end as soon as she rose to power in Berlin.

But Washington is realizing that instead of wasting time and resources on debatable issues such as Putin's democratic instincts, Merkel's policy seems to be increasingly guided by realistic considerations of Germany's medium- and long-term economic interest in consolidating a reliable partnership with Russia. This leaves Washington in the inelegant company of the pack of "New Europeans" from East Europe and the Baltic region to keep the flag of anti-Russia animus flying within EU forums.

Thus the Bush administration was counting on the German presidency of the EU next year as heralding a period of stepped-up EU pressure on Russia on issues of Russia's relations with the countries of the Commonwealth of Independent States. The US expectation was that Berlin would haul Moscow over the fire on the issue of the "frozen conflicts" in the post-Soviet space. However, Germany does not seem to be interested in following the US script in ratcheting up EU-Russia tensions.

On the contrary, the German Foreign Ministry has reportedly prepared a paper titled "The German EU Presidency: Russian, European Neighborhood Policy and Central Asia" that aims to tighten the EU's relations with Moscow. The paper states that "Russia will play a central role in the German EU presidency".

The paper envisages that EU policies should aim at actively engaging Russia and the former Soviet states so as to bring them closer to

Europe. The subtext of the paper is, as could be expected, Europe's increasing dependence on Russia for meeting its energy needs.

Instead of adopting a critical approach toward the Gerhard Schroeder legacy, as the Bush administration would have expected Merkel to do, the German Foreign Ministry paper highlights the energy ties with Russia that were vastly strengthened by Schroeder during his term as chancellor from 1998 to 2005.

Berlin reportedly apprised Putin in advance of the parameters of the proposed policy guidelines to be pursued during Germany's EU presidency, and the Russian leader apparently liked them.

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See also M K Bhadrakumar, The Geopolitics of Energy: Russia sets the pace in energy race.