

Just Give Them The Money : Moscow Gets Rid Of A Strategic Partner.

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Natural Gas and Politics

Armenian Foreign Minister Vartan Oskanian voiced concern at a press conference in Yerevan yesterday that the price Moscow is asking for its natural gas, \$110 per 1000 cu. m., is unaffordable for the modest country and expressed hope that a "mutually acceptable solution" could be found. Judging by the present state of affairs, chances of finding that solution are slim. Kommersant has learned that Moscow is taking a hard line: either Armenia pays the new price or it uses two of its key industrial complexes as payment.

No Favors

Yesterday's press conference was not the first time that Oskanian had mentioning the issue of gas prices. He said that the issue was still under discussion. "We hope to reach a mutually acceptable solution that will not have a serious affect on standard of living or pace of economic growth in Armenia," he said.

The minister did not say openly what Armenian newspapers have been writing since the end of last year, that Yerevan, Moscow's only "strategic partner" in the Caucasus, is offended to be asked to pay as much for natural gas as its non-ally Ukraine and problematic Azerbaijan. Deputy head of Gazprom Alexander Medvedyev announced in mid-December that all countries in the region would pay \$110 per 1000 cu. m. of gas after the beginning of the year. Medvedyev stressed that political considerations would play no role in the setting of fees for gas supplies to the Transcaucasus.

At the time, they thought in Yerevan that that announcement was for public consumption, but Armenia, a faithful Russian ally, would certainly receive serious benefits - Moscow probably just didn't want to make a show of it. They were wrong. Russian President Vladimir Putin met with Armenian President Robert Kocharyan on December 16 at the Russian presidential residence in Sochi. Although the meeting was closed to the press, some details from it found their way into print.

The Armenian press reported quoted Putin as saying that he was unable to change Gazprom's decision, but could indulge Yerevan to a certain extent. With an interest-free loan of \$88 million to cover the difference between the old and new gas prices, for instance, so that Yerevan could buy as much this year as last.

The Betrayal of a Strategic Partner

Armenian society reacted with loud indignation when it found out the details of the negotiations. Russia's behavior was seen almost as a betrayal. "Armenia has no relations with its strategic partner because, in reality, those relations are not strategic and not with as a partner, but as a vassal," Chorrord Ishkhanutyun newspaper wrote.

President Kocharyan was subject to particular ire. His statement during the negotiations "I am grateful to Russia for the attention it has shown through various events as part of the Year of Russia in Armenia," was quoted with sarcasm in the Armenian press.

Armenian authorities tried to convince the public that it the situation under control. Shushan Sardaryan, press secretary of the Armrosgazprom Co. gave assurances that negotiations were continuing between Armrosgazprom and Gazprom and the fee for gas supplied to Armenia had yet to be set. Minister of Energy Armen Movsisyan stated that "that is not the final opinion of Russia and there is a possibility that the price will be lowered." He pointed out that, while Russia is negotiating with Armenia, it is not budging for other countries.

Kommersant has learned that, soon after the Sochi talks, Russia offered Armenia terms that stunned its leaders. Moscow stated that it would provide gas in 2006 at the old price. In exchange, Yerevan had to transfer to Russia ownership of the fifth block at the Razdan heating and electricity plant and the entirety of the country's gas transport system. Russian specialists estimated the value of those objects at \$140 million. In Russia's view, that sum would pay for the volume gas necessary to maintain last year's level of supply in 2006.

Reconsidering Values

Yerevan announced in response that Russia's suggestion would have a serious impact on the countries' relations. "Such a step by Russia cannot be allowed to have negative consequences for Armenia or for Russia itself in Armenia or in the region as a whole," Foreign Minister Oskanian stated. According to information obtained by Kommersant, Armenia has succeeded so far only in having the price hike delayed until April 1.

Considering the slim chances of finding a "mutually acceptable solution," Yerevan has stated that it must reconsider approaches to the country's energy security. That means that all hopes are on the Iran-Armenia gas pipeline, which is under construction at breakneck speed. It is expected that Iranian natural gas will begin flowing into Armenia in October or November of this year.

Plans for the construction of that pipeline were made in the early 1900s but the project was left to languish on the back burner, mainly because of the opposition of the United States and Russia to it.

Washington is against any economic cooperation with Iran and Moscow perceives Iranian gas as a direct threat to the interests of Gazprom.

The project was resurrected only when Russia promised not to raise gas prices for the next two years and Armenia promised in exchange to make the Iranian pipes narrower so that it would be less practical to transport the gas farther, to Georgia, Ukraine or Europe.

New gas suppliers will not be the only consequence of the situation that threatens Russia's interests. Speaker of the Armenian parliament Artur Bagdasaryan has already proposed charging rent for the 102nd Russian military base, which is located on Armenian soil. Moscow does not pay for the use of the base at Gyumri, near the Turkish border, where it maintains S-300ballistic missiles and MiG-29 fighter jets as part of the CIS united air defense system.

There is increasing talk in Armenia now about the need to reexamine relations with Russia as a whole. People are recalling that this is not the first time that Russia has offended its "little brother." In particular, Moscow was involved in the construction of a rail line from Iran to Azerbaijan, skirting Armenia, as part of the North-South international transportation corridor. Now, a rail line from Kars, Turkey, to Akhalkalaki, Georgia, is under discussion, and it will

bypass Armenia as well, creating the risk that the country will become a dead end for transportation in the South Caucasus. Russia seems unconcerned about how its "strategic partner" will live after that.

"The foundations for Armenian-Russian relations were laid when Russia was a quantitatively different country that was trying to set up a democratic scale of values and had predictable domestic and foreign policies. Now our state interests require the reconsideration of the conception of relations between Armenia and the Russian Federation," David Shakhnazaryan, a leader of the opposition Armenian National Movement, stated recently. Officials have not been such statements in public yet.

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