

TBILISI : Gas crisis offers strategic opportunity.

By Mark Simakovsky*

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Cries of "gazi ar aris," literally "no gas," can again be heard among Georgia's population and leaders in the past few days, as four targeted explosions in the Russian North Caucasus temporarily cut off all gas supplies to its southern neighbor on Sunday January 22. The clear aim of sabotaging the two main gas pipelines and a transmission line, all of which directly supply Georgia, was to cripple the country at a time of an uncharacteristically frigid conditions at home and icy relations abroad with its northern neighbor, Russia.

Russian delays in repairing the pipeline, continued blackouts all over the country, and the worst weather to hit Georgia in years means that the crisis is far from over. Despite the current instability, now is the time to turn this great challenge into a strategic opportunity. Exuding alacrity and resolve in its emergency response, the government of Georgia can emerge stronger if it steps back from further souring relations with Russia and looks instead towards the future. Constructive and pragmatic decision-making can edge Georgia closer to finally overcoming its 'Achilles heel' of energy vulnerability.

Russia's Role

Georgia's energy insecurity could properly be renamed winter insecurity, as cold temperatures bring a drastic decline to the country's ability to supply its power demands through its numerous hydroelectric plants. Natural gas needs climb to approximately 7 million cubic meters per day in winter months, 100% of which is supplied by Gazprom through the pipelines crossing the turbulent North Caucasus into Georgia.

After the explosions Sunday morning, President Saakashvili and other government officials pursued a clear strategy to publicly accuse Russia of staging the attacks, going so far as to state that an "act of sabotage on the part of Russia on Georgia's energy system" had occurred and that the explosions looked "like a policy decision." With Russia's Foreign Ministry reaction focusing on Georgia exhibiting "a mix of dependency, hypocrisy and depraved behavior" and a sense of "hysteria and bacchanalia," cooler heads did not prevail in the initial period after the explosions.

The number of individuals and groups interested in plunging Russian-Georgian relations to a new low and destabilizing the region further are too numerous to list. Whether a top-level policy decision to squeeze Georgia, the individual actions of members of Russia security services unhappy with the reduction of Russian troop presence and influence, or an attack by North Caucasus militants interested in destabilizing the region, the sabotage in no way supported the real national interests of the Russian Federation.

For Russia, this crisis has clearly become a lose-lose situation. Coming on the tails of its pressure tactics in Ukraine, the continuing crisis in Georgia only fuels the fire of skepticism in the Western body politic concerning Russia's ability to fulfill its ambitions as a reliable energy partner. Georgia's calculated information campaign (the president reached out to the BBC, CNN, Reuters, and the New York Times immediately after the explosions)

against Russia, although making the country's own leader's look relatively impulsive, has effectively put the onus of international attention on another Russian failure, as the "underground fire" of instability continues to spread in the North Caucasus.

An Alert Response

The government of Georgia's questionable verbal reaction to the attack, however, contrasts sharply with a surprisingly effective emergency response and crisis management effort. In a matter of hours on Sunday, the government had managed to implement a prearranged bilateral emergency agreement with Azerbaijan and shift around dwindling supply to affected regions. With initial cooperation by Russia - reportedly President Putin made a call to President Aliyev a few hours after the attack - Russia supplemented Georgian loss by sending additional gas supplies to Georgia through Azerbaijan.

Russia's initial subsidies, however, have seemed to fall off, as Georgia is now only receiving approximately 2.5 million cubic meters from Azerbaijan through an aged Soviet pipeline in Azerbaijan. Quick and sustained cooperation of Georgia's strategic partner in Baku averted the complete loss of electricity and gas to the country. The country's leaders would be wise to remember which foreign partner came to its aid in a time of need.

Georgia's current efforts contrasted sharply with the January 2003 gas crisis, when the Shevardnadze administration, faced with a cutoff of gas for ten days, was incapable of assuaging the loss of gas from Russia. The current government's sober and timely decision to sign an emergency agreement with Azerbaijan in autumn 2005 and resulting last minute repairs on an unused Soviet-era pipeline saved the country from a complete termination of natural gas supplies. Channeling this political competence beyond crisis management into strategic planning will help the country build a sustainable and responsible energy policy.

Building an Energy Strategy

This recent crisis, however, has provided a strategic opportunity for a country that despite its stated Euro Atlantic orientation and integration efforts, still lies under the direct thumb of political decisions and insecurity inside the Russian Federation. In the short term, instead of harping on unsubstantiated "Russian sabotage," Georgia's leaders should focus their statements on Russia's inability to fulfill its contractual obligations to a freezing country. In addition, this crisis proves that increasing Russia's stake in Georgia energy system is a solution fraught with peril. All talk of selling the North-South pipeline to Gazprom should be immediately put to bed.

The fact that Georgia has recently signed a memorandum of understanding with Iran to secure additional emergency supplies, although controversial, is understandable. Yet a strategic shift towards Iran will open debate in Western circles as to the reliability of Georgia as a Euro Atlantic partner. Short term energy needs must not overcome long term foreign policy priorities.

In the medium term, potentially from 2007, Georgia should focus on the Shah Deniz/Baku-Tbilisi-Erzurum project as a potential source of additional gas resources to shore up its current vulnerability. The stated interest by some in the government of Georgia to restructure the existing South Caucasus Pipeline network contract - which will provide the country with 5% of transited gas through Georgian

territory and additional opportunity to purchase 200 million cubic meters the first year, growing exponentially to 500 million cubic meters in years 4-20 of the contract at a rate of USD 55 per thousand cubic meter - should not be executed. Renegotiation of a contract which is tied to the country's strategic orientation towards the West will only create questions over the country's own commitments to previous agreements, potentially undermining its reliability and role as a constructive energy partner.

Instead, as independent energy analyst Teimuraz Gochitashvili noted, "Turkey's contracted oversupply in gas by 6-10 billion cubic meters over the next few years provides a strategic opportunity for Georgia," which can potentially negotiate a commercial contract with BP around a favorable rate of USD 115 per thousand cubic meters (minus 10 transfer fees.) This would be in the interests of oversupplied Turkey, which is potentially facing penalties under its "take-or-pay" provisions if it does not fulfill its Shah-Deniz contractual obligations. With western support, Georgia could seek to obtain ½ to 1 billion cubic meters to shore up its current shortages.

In the medium term, it may be time to look south at the example of Armenia, which until now has escaped the energy crisis due to its small strategic reserve of natural gas. All countries who are net importers of gas, as a general rule, have some strategic reserve capabilities. Georgia's lack of reserves is a result of years of economic decline and state weakness. The new government's success in strengthening the state and implementing economic reforms should now be matched by discussions on a plan to create a small, flexible reserve in the next 3-5 years.

In the long-term, Georgia's strategy should be two-fold: focus on regional cooperation and develop robust economic conditions so that the country can become a stable transport pillar for pipelines bringing energy resources from Central Asia, through Europe and the Black Sea, and into European markets. This will involve the need to engage in sustained comprehensive economic and political reforms, a continued Georgian commitment to peaceful resolution of the separatist conflicts, and working constructively with Russia to ensure it abides in deed to its stated intention of respecting Georgia's territorial integrity. In addition, U.S. support of the peace effort in Georgia should be matched by more international, in particular European engagement in Georgia's separatist conflicts. All of this will help provide the conditions for a more stable and secure regional cooperation framework, whose goal is the development and enlargement of the Eurasian transport corridor through the South Caucasus.

The recent gas crisis has shown that Georgia's energy security is in fact a larger question of regional security, and exposed Russia's failure in acting as a stable energy supplier. Georgia's near-term decisions to overcome this crisis will determine whether or not energy crises continue to plague the reform efforts and stability of a country desperately trying to shake itself from the orbit of external influence. In the end, the clear trajectory of market prices means Georgia will have to pay European prices for gas to match its European integration ambitions. While the country is still chilled by an ongoing gas crisis today, Georgia's leaders can effectively prepare tomorrow to pull the country into a new secure energy future marked by diversification of supply.

* Mark Simakovsky is a Fulbright Research Fellow at the Georgian Foundation for International and Strategic Studies (GFSIS) in Tbilisi and contributed this comment to The Messenger.
