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## Russia could use economic leverage against Georgia

The Russian Oil and Gas Report (Russia) - 13/8/2008

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There are four major pipeline systems in Georgia: the Baku-Tbilisi-Ceyhan oil pipeline, the Baku-Supsa oil pipeline, the Baku-Tbilisi-Erzurum gas pipeline, and the North-South gas pipeline. Russia controls only one of the four: the North-South pipeline, used to transport Russian gas to Armenia. As of this year, Georgia has minimized its consumption of Russian gas in favor of cheaper fuel from Azerbaijan. The other three pipelines transport fuel from Azerbaijan, Kazakhstan, and Turkmenistan. And it would be somewhat inaccurate to talk of Russia using energy as a weapon in this situation - but neither can we say for certain, at this stage, that Russia will not cut off supplies. Gazprom has not made any statements as yet about its plans for transporting fuel across Georgian territory. When we approached Gazprom Export yesterday, we were unable to obtain confirmation that the full volume of gas supplies is reaching Armenia.

Experts disagree on the likely effectiveness of an embargo. Mikhail Aleksandrov, head of the Caucasus Department at the CIS Countries Institute, says that the sanctions Russia lifted in January 2007 should be re-imposed immediately.

This opinion is not shared by Leonid Grigoriev, president of the Energy and Finance Institute. The Regnum news agency quotes Grigoriev as saying: "given the current situation, I see no possibility of substantial economic sanctions. Georgia simply does not have the kind of economy that might be affected by sanctions."

Analysts are also noting Russia's lack of success with imposing economic sanctions on Georgia in 2006. Statistics indicate that Russia's economic boycott was not as effective as expected. According to the IMF, the Russian embargo had no substantial impact on the Georgian economy: Georgia's GDP growth rate was 8% in 2006. Russian sanctions reduced that figure to 6-7% in 2007, also raising Georgia's balance of payments deficit by \$250-300 million. But the negative consequences of these processes were more than made up for by foreign aid, according to analysts. A similar assessment of the Russian-Georgian conflict's results comes from Kakha Bendukidze, former Georgian state minister for economic reforms: "Everyone knows what Georgia lost from the Russian embargo: 1-1.5% of GDP growth, or \$150 million. That is not much."

This time, however, Georgia's financial losses look like being far more significant. There have already been reports from Tbilisi of Russian efforts to disable Georgia's energy arteries. Georgian Prime Minister Lado Gurgenzidze stated that Russian aircraft had struck at the Baku-Tbilisi-Ceyhan (BTC) oil pipeline on August 9, and the parallel Baku-Tbilisi-Erzurum pipeline - Georgia's two energy backbones. The Georgian government's official statement says: "Out of 30 bombs dropped, 28 exploded - several exploded in direct proximity to the oil pipeline, only five meters away." The statement goes on to say: "This attack goes beyond bombing one of Georgia's strategic facilities - since this pipeline delivers oil to Turkey, Europe, and the United States, these attacks pose a threat to the strategic interests of those countries." Note that no independent sources have confirmed this information as yet.

As well as the pipelines, Georgia's oil ports - Poti, Batumi, Kulevi - are being targeted by air-strikes. Due to fighting in those districts, the State Oil Company of Azerbaijan (SOCAR) has suspended crude oil and petroleum

products exports via these terminals and evacuated its personnel. SOCAR CEO Rovnag Abdullayev said that imports and exports of oil via Georgian ports were suspended as of August 7, since tankers could not enter the ports due to bombing. Tanker-loading resumed at Kulevi yesterday, but SOCAR spokespersons said that the final decision on continuing or suspending the company's operations in the region will be made today: "The tanker-unloading situation at the Georgian ports of Poti and Batumi remains unclear. This is a force majeure situation. We expect the situation to be more comprehensible by Monday, and we shall decide what measures to take for exports of Azeri petroleum products and crude oil."

Source: Gazeta, August 11, 2008

Translated by InterContact

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