

# The Putin Vortex



By John Harpole

A sort of Putin vortex has reset geopolitical relations much as the polar vortex has reset North American weather, and Vladimir must be smiling. It prompts me to pick up where I left off from a Closing Bell published in October 2012.

The column, called “LNG Diplomacy,” closed with the following question:

“When will our own politicians realize the depth of their energy hypocrisy and the lost opportunity for projecting real geopolitical power while helping create jobs right here at home?”

The frustration of waiting more than a year for the Department of Energy’s liquefied natural gas (LNG) export study had boiled over for me.

Did that delay cause the U.S. to miss an LNG diplomacy opportunity in the Ukraine? I’m going to argue that it did.

The folks in Washington, D.C., have been stirred from their collective slumber now. Yet they still seem to misunderstand Putin’s motivation and how to keep this crisis from escalating.

There are at least four motivations for the Putin vortex:

1) Russia is Gazprom and Gazprom is Russia. As the cash-cow for Russia, government-controlled Gazprom—the largest producer of natural gas in the world—recognized its waning ability to coerce other countries with its weaponized gas contracts. Putin recognized the potential threat of U.S. shale gas development long before President Obama recognized its benefit. U.S. energy dominance threatens Russia’s national interest. What better way could there be for Gazprom to lock-in a market and access to other markets than the seizure and annexation of territory and its associated pipeline rights-of-way?

2) After perennial, dispute-riddled dealings with Ukraine, Russia aggressively pursued a new gas pipeline route. It would bypass gas-siphoning Ukraine and deliver uninterrupted supplies to Europe. That \$18 billion Gazprom South Stream Pipeline project, now under way, would circumvent Ukraine by traversing the bottom of the Black Sea. But a secure Black Sea route comes at a cost of at least five times that of a Ukrainian land route. Could it be that Putin has found a way to cut Russia’s pipeline transportation costs by relocating South Stream onshore—via his soon-to-be reacquired former Soviet-era sister country?

3) Just four months ago, the European Commission handed Gazprom’s proposed South Stream Pipeline a devastating blow, concluding that the pipeline violates the European Union’s (EU) “unbundling rules,” which forbid a company from owning both production facilities and pipeline networks. Furthermore, South Stream must allow “undiscriminatory access to third parties.” Simply put, Gazprom cannot have exclusive rights to sell gas to Europe. So why not reacquire parts of Eastern Europe as the ultimate bargaining chip?

4) Putin’s invasion of Ukraine puts on hold recently negotiated shale gas exploration licenses granted by Ukraine to Royal Dutch Shell and Chevron. That eliminates additional competition for potential Gazprom markets and capacity on Soviet-era pipelines.

## What’s next?

Will the U.S. response to Russia be effective, appropriate and grounded in moral justice? Or will we equivocate?

The most ironic element of the Ukrainian crisis is the response by the EU and U.S. to provide economic aid (\$15 billion and \$1 billion, respectively) to help Ukraine deal, in part, with its “energy costs.”

Essentially, by offering energy-aid packages, the U.S. and EU are paying Gazprom for past-due gas bills. It’s a nice reward for an invasion.

What’s to stop “Crimean troops” from invading southern and eastern Ukraine, and assuming control of Ukraine’s Soviet-era pipelines? It would be a win-win for Putin. Europe, co-opted by its basic need for light and heat, would go along.

How should the U.S. respond? How do we back up Ronald Reagan’s moral promise to Eastern Europe that “you are not alone?”

It’s simple, really: support construction of an LNG regasification port on Ukraine’s Black Sea with financial guarantees.

Of course, the U.S. lost a golden opportunity here. While the U.S. was dithering, studying the potential impact of LNG exports, Ukraine was desperately seeking LNG supply to counterbalance Russia. One year ago, a \$1 billion commitment to backstop a Ukrainian LNG terminal would have made a world of difference in the Black Sea balance of power.

Obama has yet to recognize that Russia has a national interest in the outcome of this conflict. It’s as if he has a blind side to the strategic importance of fossil fuels. Obama seems unaware that U.S. consumers pay one-third of Ukraine’s \$12 per million Btu for gas. Clearly, Putin’s national interest is predicated on money.

The Ukrainian conflict will continue to escalate until Obama recognizes Russia’s concern.

But how do you make the moral case to Ukrainian households that their freedom and need for affordable heat and light is less important than Europe’s need for the same basic comforts?

Do you think Mr. Putin would settle for pipeline right-of-way ownership through Ukraine in exchange for returning Crimea?

Regardless, the Ukrainian people must feel very lonely. ■

*John Harpole is senior advisor and an editorial advisory board member to Midstream Business. He is founder and president of Mercator Energy LLC and can be reached at [harp@mercatorenergy.com](mailto:harp@mercatorenergy.com) or 303-825-1100.*