

Policy Watch: Russia, Algeria and Europe

Published: Nov. 27, 2006 at 12:26 PM

MARK N. KATZ

In 2006, Russian-Algerian relations expanded markedly, fueling European fears that Russia and Algeria -- two of the European Union's three principal gas suppliers -- will collude to raise the price which EU countries must pay for natural gas. Yet while the improvement in bilateral ties has been dramatic, there appear to be limits on the extent to which they can collaborate in the natural gas sphere where their interests appear to be more competitive than cooperative.

Putin was in Algeria March 9-10, 2006 -- the first top-level Russian leader to visit Algeria since Soviet President Nikolai Podgorny in 1969. In early August, the Russian gas monopoly, Gazprom, and the Algerian state petroleum company, Sonatrach, signed a Memorandum of Understanding. Precisely what it entailed, though, was not clear, as the two sides described its contents only in very general terms. Many in Europe, however, were alarmed beforehand just at the prospect of Gazprom and Sonatrach collaborating.

Some European countries are heavily dependent on Russia for their gas supplies. Others are heavily dependent on Algeria. Italy is dependent on both.

Previous calls by Putin as well as Gazprom for the creation of a gas cartel, similar to how OPEC functions as an oil cartel, have led to European concern that Russia and Algeria in particular will act together to raise the price of gas that Europeans must pay. The Russian-Ukrainian gas dispute of January 2006, which led to a temporary drop in Russian gas supplies to Europe, Putin's visit to Algeria in March 2006, and the August 2006 Gazprom-Sonatrach MoU heightened European concerns about gas prices -- especially since Europe's dependence on gas imports is expected to increase over time.

On May 23, 2006, for example, Britain's Financial Times ran an article citing Putin's former economic adviser, Andrei Illarionov, warning of "a new form of gas cartel ... being developed by Russia and Algeria." On June 29, 2006, Le Monde warned that Gazprom "is forging energy cooperation with Algeria, which could in the long run threaten the Europeans' room for maneuver." After the signing of the Gazprom-Sonatrach MoU in early August, the CEO of the Italian energy company Sogenergia, "called on the Rome government to open negotiations on the importing of natural gas from countries other than Russia and Algeria."

In contrast to this alarm, several petroleum analysts cast doubt on both the ability and the willingness of Russia and Algeria to work together to raise gas prices. Africa Energy Intelligence, for example, said that the August 2006 Gazprom-Sonatrach MoU "appears to be merely a preliminary and vague agreement ... In the past, Sonatrach has signed the same type of agreement with RoyalDutch/Shell and Statoil but they failed to produce concrete results."

World Gas Intelligence pointed out that while Gazprom is just starting to get into the LNG market, Sonatrach is a well established player in it "that could provide stiff competition as Gazprom works its way into the market." Datamonitor noted there already exists a Gas Exporting Countries Forum whose members (which include both Russia and Algeria) account for 73 percent of world gas reserves and 42 percent of production, but this is little more than a "debating forum."

Of course, merely because outside analysts think that Russian-Algerian cooperation could not

succeed in raising gas prices is no indication that the two countries will not attempt to do so. There is reason to believe, however, that they might not even try since they appear to recognize that they have differing interests.

For example, the Algerian Energy Minister, Chakib Khelil, saw the January 2006 Russian-Ukrainian gas crisis as being harmful to Algeria's interests. "The risk from this conflict is greater in the long term on the producers and exporters of natural gas who supply Europe via gas pipelines, such as Algeria and Norway," he argued, since this would result in Europe "setting up a policy of diversification of its supply sources" which would deprive existing suppliers of a significant share of their market.

He predicted "the EU is going to learn a lesson from this incident and will diversify its sources (for importing) liquefied gas from states which have the potential to supply the EU." Egypt, Qatar and Nigeria were suppliers he foresaw that the Europeans would turn to. Clearly, Algeria did not appreciate Moscow's precipitation of this crisis which it saw as harmful to Algerian interests.

For their part, the Kremlin and Gazprom could not have been pleased by Khelil's February 2006 statement noting that, "From Italy, Algerian gas ... can be distributed throughout Europe, and that is what I have promised the countries in Eastern Europe, such as Poland, which are looking for alternatives to supplies from Russia." Worse still, from Moscow's perspective, he suggested that in order for Algeria to gain the cooperation of other parties to transmit Algerian gas from Italy to Eastern Europe, "it will be necessary to drop from the current market price."

The inception of Algerian gas exports to Eastern Europe would, of course, weaken Gazprom's dominance over those markets. What this suggests is that Gazprom's motive for reaching an agreement with Sonatrach may not have been aimed at raising the price of natural gas but at simply preventing Sonatrach from undertaking actions which would serve to reduce either gas prices or Russian gas sales to Europe.

Further, Gazprom CEO Alexei Miller made it clear that an area in which he especially hoped for cooperation with Algeria was the construction of gas-liquefaction facilities in Russia -- something that he saw Algeria as having "a good amount of experience" with. Algeria's agreeing to do this, of course, would increase Russia's ability to export liquefied natural gas and hence compete with Sonatrach in this market.

Naturally, it might make sense for Algeria to agree to this: If Russia is going to buy this technology from somebody, Algeria may as well be the one to benefit. But this indicates that even if Algeria does help Russia build up its gas-liquefaction capacity, their interests will be more competitive than cooperative in the long-run.

So while Russia and Algeria cooperate on some matters, neither hesitates to pursue its own economic and commercial interests even when this negatively affects the other's. It is doubtful, then, that Russia and Algeria will be able to build the "gas OPEC" that some in the West fear.

--

(Mark N. Katz is a professor of government and politics at George Mason University.)