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# Gas Replaces Weapons in New Russia-West Standoff

By Alexander Panin

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Last week the U.S. congressmen offered to lift its gas export restrictions in an effort to reduce Russia's energy dominance in Europe.

As the worst standoff since the Cold War emerges, energy and economic diplomacy are the tools the West applies to contain Russia, expecting them to be more effective than military confrontation.

Business executives and energy industry analysts, however, were doubtful that these tools had any commercial value added to the political will.

In the next few years Canada may start exporting natural gas to Europe, the country's Foreign Minister John Baird said on Sunday in an interview with Fox News television channel.

The European market is very promising for exports of Canadian gas from its Atlantic coast, the foreign minister said.

"At the same time there will be pipelines going to the Pacific coast and even reverse pipelines going to the Atlantic so we can diversify our markets," Baird said.

He also said that Canada may one day overshadow Russia as a natural gas supplier to Baltic states that are currently at the mercy of President Vladimir Putin and even replace a third of Europe's gas that is passing through Ukraine.

Earlier last week several U.S. congressmen offered to lift a restriction on U.S. gas exports as part of sanctions against Russia over its takeover of Crimea.

Under the current laws, U.S. energy companies can freely export gas to countries with which the U.S. has a free-trade agreement. This includes Canada, Mexico and some other countries but not Europe.

If the U.S. Energy Department approved exporting gas to other nations, this could loosen Russia's grip on energy supplies in the region, the lawmakers said.

"Exporting U.S. natural gas to our European allies will bolster their independence and strengthen our transatlantic partnership," Republican Congressman Michael Turner said in a statement.

But Igor Yushkov, a leading analyst at the Moscow-based National Energy Security Fund, was skeptical that the proposed political measure would have any commercial significance.

"Claims that the U.S. may make up for Europe's gas demand are groundless because the U.S. does not yet have liquified natural gas [or LNG] facilities, they will start to appear only in the next two years," Yushkov said. "Moreover, all LNG from these plants will be shipped under already-concluded contracts to Asia, where the price for gas is twice higher than in Europe."

The analyst had even more doubts about Canada's LNG plans.

"If the U.S. can redirect their existing import terminals to export operations, Canada does not have any of them at all and would have to build the infrastructure from scratch," Yushkov said, adding that this would require much time and investment as pipelines, terminals and LNG fleet cannot appear overnight.

Rainer Seele, the CEO of German oil and gas exploration company Wintershall, called talk that LNG exports from U.S. could possibly satisfy European demand "populistic claims rather than economically based forecast" in his interview with Vedomosti published Monday.

"It is still unclear what excess American gas is being spoken of and what will be the final price for it at European terminals," Seele said.

Meanwhile, Russia is making its own politically fueled remarks.

On Friday, Andrei Kostin, the head of state-owned bank VTB, called for a switch to national currency in all international trade operations.

"We hear top Western officials' appeal to isolate Russia and destroy its banking sector with the help of the modern "nuclear weapon" in finances — dollar transactions," Kostin said, according to news reports.

This outcry was supported on Monday by Gazprom, which said it was considering selling gas for rubles, followed by a statement from its oil subsidiary Gazprom Neft saying it was thinking of shifting from operations in dollars to euro.

"We have discussed with our buyers the possibility of switching contracts to euros and ... 95 percent said they are ready," said Gazprom Neft CEO Alexander Dyukov, Reuters reported.

While both measures seem unrealistic within a short-term perspective, a shift from dollars to euro is at least theoretically possible as this will mean trading with European partners in their national currency, Yushkov said.

"Still, because long-term oil and gas contracts are tied to oil prices, which are traditionally set in dollars, the measure seems applicable only for new contracts," Yushkov said.

In any case, further energy-related conflicts will only mean escalated confrontation between Russia and the West, said Lilit Gevorgyan, a senior economist at IHS Global Insight, a US-based international consultancy.

"If Russia indeed goes down the route of switching to ruble in energy trade, and Canada and the U.S. [plan to] supply energy to Europe is driven by geopolitical considerations, this will only mean that the Russia-West standoff continues, only on a different level," Gevorgyan said.

Although Russia is likely to loose more in this economic energy race, muscle flexing is in no one's interest, the analyst added.

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