



Published on *The Big Money* (<http://www.thebigmoney.com>)

[Home](#) > Putin's New, Lame Cold War

Putin's New, Lame Cold War

By *mark.gimein*

Created 01/08/2009 - 11:08am

Energy is a surprisingly weak political weapon.

 [090108_TBM_Putin.jpg](#) [1]

Of all the loan words that the Russians have taken from English, *hooligan* is one of the most popular. Its origin seems to be a slur based on the Irish last name Houlihan, but the Russians have always taken to the word with gusto, using it far more often than native speakers and even turning it into a verb. For Russians, *hooliganism* is a term for a wide range of mischief-making.

Like every Russian dictator in history, Vladimir Putin is credited by his supporters (and sometimes by Western observers) for his ability to bring order, but one of the things that makes him a successful autocrat is a talent for hooliganry. He is always willing to start a rumble with the general idea that when the chaos is over he'll be left standing, maybe with someone else's Rolex in his hand.

Yesterday's [sudden cutoff of natural-gas supplies](#) [2] to Europe is a prime example of Putin's hooliganry in action. Two weeks ago the issue in the dispute between Ukraine and Gazprom, Russia's chief energy company and proxy for the Kremlin, was the hundreds of millions in fines that the state of Ukraine supposedly owed for late payments. A week ago it was the future price of gas. Three days ago it was the [alleged theft by Ukraine of natural gas going to Europe](#) [3] through its pipelines. And today it is ... well, we're not really sure. Not very much has changed in the last few days except that Putin seems to have sensed an advantageous time to show Ukraine and its European allies that he could turn off the flow of gas more or less with the flick of a switch.

The sudden shutting off of a key source of energy to most of Europe in the middle of winter immediately brings to mind the age-old worry about the power of oil and gas as strategic weapons. What more powerful political tool can Putin have, the thinking goes, than the power to shut off heat to Europe in a moment? Control over energy is the ultimate way of waging war by other means.

Or not. For 35 years, since the [1973 OPEC oil embargo](#) [4], a fear has reigned that the countries controlling energy resources would turn that control to political ends. But in fact, oil and gas actually make an excellent blunt club for the hooligan—and a terrible long-term political weapon. That 1973 embargo is an ideal case in point. We have all seen the footage (or remember the fact) of endless lines at gas stations. But the strong visual memory hides the reality that in terms of its political ends, the embargo was stupendously, even catastrophically, ineffective. The immediate goal of the embargo, which lasted for five months, was to punish the United States (and the Netherlands, where oil shipments were also halted) for its support of Israel in the 1973 Arab-Israeli

war. To the extent that the hope of the war was to force the United States to break off its de facto alliance with Israel, it is hard to imagine a failure that is more comprehensive and long lasting.

What made the embargo *seem* so effective is that it coincided with the beginning of a period of greatly increased ability on the part of the OPEC member states to control the world price of oil, a period that lasted into the 1980s. The embargo was unsuccessful in achieving its *political* ends, but it highlighted OPEC's ability to achieve its *financial* ones. It showed that by acting in concert in an environment of a world shortage of available energy resources, OPEC could get much better prices for its oil. That had an enduring effect: the world price of oil kept rising long after the embargo, reaching a peak in 1981.

There is obviously no love lost between Putin and Ukraine, whose president, Viktor Yushchenko, [Putin's agents once poisoned](#) [5]. Without a doubt, Putin has no desire to support a government that detests him in a country that fears him by continuing to sell Ukraine natural gas at below-market prices, as Russia did under earlier agreements. But what's really at stake here is not an effort to use natural gas as a lever to control Ukrainian or Western European policy. It is to wring the maximum price that Putin can get from gas customers.

In this way, the battle over gas between Russia and Ukraine is actually similar to the battles over fees that [Time Warner](#) [6] has fought with ABC, which it briefly took off its cable systems in 2006, and [Viacom](#) [7], whose channels it [nearly took off the air a few days ago](#) [8] before reaching a last-minute agreement. Just as Time Warner, beset with enormous debt payments, has been willing to raise the stakes in its negotiations, so too is Russia (or, if you insist, "Gazprom"—though when it comes to policy questions *Gazprom* or *the Kremlin* are interchangeable) taking a much harder line now that the price of oil, its other major energy export, is tumbling. It is doing this, it's worth noting, in advance of negotiations with Ukraine about how much Russia will have to pay to transport its natural gas through Ukrainian pipes to the rest of Europe. That's a negotiation in which it will be Ukraine's turn to demand higher prices, leading to higher prices in Europe for which Russia will blame the Ukrainians.

Putin's hooliganry is a very effective negotiating posture. If you want to get more money from your customers, it certainly doesn't hurt to show them how much they need you. Over the long run, Putin's muscle flexing will push Europe to work harder to develop new sources of energy. In the short term, however, Putin's willingness to create chaos strengthens his hand in getting billions more from Ukraine, whose gas purchases Western Europe may have to end up subsidizing, and from the Western Europeans themselves. In the end, however, the gas shut-off is a negotiating posture, not a battle for political supremacy. Russia, like every other energy exporter in the world, needs its customers. Battles over the sale and transport of oil and gas have a funny way of getting resolved; in their brief war, Georgia shut off the pipeline that brings Russian gas to Ossetia—now even those countries are [on the verge of a new agreement](#) [9].

The same button that controls the transport of oil or gas in one direction also, not coincidentally, controls the transport of money in the other. The oil or gas exporter that shuts off the supply is standing in a vacuum-sealed room with a finger on the button that pumps in air. But the question is, who can hold their breath longer. Putin has every reason not to hold his breath too long. For him, the skyrocketing price of oil has been a tremendous boon—when oil prices go up, everybody who governs an oil-exporting country looks like a genius. The hundreds of billions that the oil boom sent sloshing around the Russian economy has let Putin reward his cronies and still make the vast, angry Russian working class feel like it's getting a better deal than it got in the early post-Communist days. Now the falling price of oil threatens to turn the Putin surplus into a big government deficit even as Putin promises to increase services and [raise pensions](#) [10]. Any imperial agenda Putin may have in Europe takes a back seat to keeping the hard currency coming in and satisfying the Russian constituencies that have accepted his

bargain of trading democracy for prosperity. Ultimately, the oil and gas calculus always ends with the same reality: Whatever political advantage can be achieved in the future by turning the pipes off quickly gives way to the political and financial advantages that can be achieved in the present by turning them on.

Author:

[Mark Gimein](#) [11]

Source URL: <http://www.thebigmoney.com/articles/history-lesson/2009/01/08/putin-s-new-lame-cold-war>

Links:

- [1] http://www.thebigmoney.com/sites/default/files/090108_TBM_Putin.jpg
- [2] <http://www.msnbc.msn.com/id/28515983/>
- [3] <http://www.washingtonpost.com/wp-dyn/content/article/2009/01/05/AR2009010502738.html>
- [4] http://en.wikipedia.org/wiki/1973_oil_crisis
- [5] <http://www.washingtonpost.com/wp-dyn/content/article/2006/04/11/AR2006041101114.html>
- [6] <http://www.thebigmoney.com/search/quotemedia/twx>
- [7] <http://www.thebigmoney.com/search/quotemedia/via>
- [8] <http://www.latimes.com/business/la-fi-viacom2-2009jan02,0,1305999.story>
- [9] http://www.upi.com/Energy_Resources/2009/01/06/Georgia_resumes_gas_supplies_to_S_Ossetia/UPI-89151231266869/
- [10] <http://www.washingtonpost.com/wp-dyn/content/story/2008/12/04/ST2008120402515.html>
- [11] <http://www.thebigmoney.com/users/markgimein>

