

To secure its energy, Europe must end opacity

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Many commentators have seen the gas dispute between Russia and Ukraine as an argument about gas prices. But according to no less an authority than Vladimir Putin, the Russian prime minister, speaking on January 8: '[What the Ukrainians] are fighting for today is not the gas price, but a chance to keep this or that middleman in order to use the dividends for personal ends and personal enrichment.' The Ukrainian prime minister, Yulia Tymoshenko, has made similar comments about the motivations of 'senior political officials' in Ukraine.

This barrage of accusations points to a deeper problem for the European Union: the relationship between opacity and threats to the security of its oil and gas supplies. Europe is sourcing energy from an arc of countries that starts in western Africa, though the Middle East and round to the former Soviet Union.

Many European policymakers seem to have assumed in the past - and possibly still do - that however rotten the governance of these countries, and however opaque their finances, Europe can count on their energy supplies. Civil wars in Africa and years of clumsy autocracy in Central Asia have rarely stopped the oil and gas from flowing.

But the Russia-Ukraine gas dispute suggests this assumption is unwise. Without greater transparency, it is not possible to understand how the trade is structured, who really controls the energy flow and who reaps the lucrative benefits. And without knowing these things, it is impossible to understand the risk of supply disruptions.

Although Putin mentioned no names, the 'middleman' in the gas trade since mid-2004 has been the secretive Swiss-based RosUkrEnerg. This company, half-owned by Gazprom, did not even identify its two Ukrainian shareholders until after Global Witness drew attention to one of them, businessman Dmitry Firtash, in April 2006.

RosUkrEnerg came out of an agreement between two sovereign states, Russia and Ukraine, but Ukraine is not a shareholder. The company has reported post-tax profits of nearly \$800 million a year, although it is still unclear what it does in the gas trade that could not be done by Gazprom itself.

This point is worth emphasising: RosUkrEnerg has sat astride one of the most strategic and lucrative energy supply routes into the EU while revealing very little about its activities or, for nearly two years, even naming all its shareholders

This question of transparency goes far beyond Ukraine. Nigeria has oil and gas in vast quantities. In September 2008, the European Commission offered financial support to Nigeria for a gas pipeline across the Sahara to Europe. Yet Nigeria is also highly opaque, despite recent reforms, and corruption is an undoubted cause of the bloody rebellion in

the Niger Delta which has cut into oil exports. The risks in other volatile countries in Africa and Asia may not be much lower.

So what can be done? The EU has attributes which, wielded intelligently, could give it some influence over the countries that supply its energy. Europe is a major market, a source of commercial finance and development aid and, more subtly, a source of legitimacy for governments abroad that often rest on shaky political foundations.

As Europeans, we need to know who supplies our oil and gas. We need to know who owns the companies and what qualifies them to play the role that they do. We need to know how they price their energy and how much revenue they pay. We need to be assured that they came by their contracts in an open and transparent manner.

So the EU should use its regulatory power to ensure that companies which trade in its energy markets, or make use of its financial system, or raise capital in its securities markets, are subject to strict disclosure requirements. For too long, some European banks have provided cover for shadowy interests and opaque financial flows.

The EU can also exert pressure for greater transparency through offers of aid and expertise to energy-supplying countries. The EU is, after all, the world's biggest aid donor.

If the EU wants to guarantee reliable supplies, then it has little choice but to insist that Russia, Ukraine and other suppliers meet basic international standards of governance and ensure that the energy trade is open to scrutiny.

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