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Elena Shadrina

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Elena Shadrina[1]

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[1] Elena Shadrina is Associate Professor in International Economic Relations at the Chair of World Economy and Foreign Economic Links at the Khabarovsk State Academy of Economics and Law (Russia) and postdoctoral researcher at the Graduate School of Modern Society and Culture at the Niigata University (Japan). Her research interests include energy governance, international energy cooperation in Northeast Asia, Central Eurasia, and Europe, and Russia's foreign energy policy. Shadrina has been involved in several energy-related projects funded by the Japan Institute of International Affairs, the Japanese Ministry of Education, Culture, Sports, Science, and Technology, and the Norwegian Research Council.

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Comments pertaining to this work are invited and should be forwarded to elena_shadrina@yahoo.com.

"Russia is an energy superpower that
uses its vast resources as the basis of economic development and
as an instrument for carrying out domestic and foreign policy."

Joseph A. Stanislaw,
Power play – Resource nationalism, the global scramble for energy, and the need for mutual interdependence.
Deloitte Center for Energy Solutions. 2008. p.9

"Russia - a carbon economy which invades Georgia,
threatens Ukraine and the Baltics and
moves on Arctic..."

Dieter Helm,
Climate Change, European Energy Policy and the Copenhagen Summit: Time for Realism?
New College, Oxford. Lecture Series in Environmental and Ecological Economics. October 21, 2008

"Today, Russia is clearly pursuing a fascinating,
highly complex multi-pronged energy strategy.
In effect, it is using its energy as a diplomatic and political lever
to 'win friends and influence (EU) people' ".

William Enghal,
High-stakes Eurasian Chess Game: Russia's new geopolitical energy calculus. 30 March 2010
http://www.voltairenet.org

"Russia would not object to being paid in rubles for its energy sales to China thus abandoning the dollar as a medium of interstate exchange… Russia hopes not just to weaken the US but also to generate demand for rubles and create a closed trading and currency block in the CIS. In this regard its motivations are not unlike those of Nazi Germany in the 1930s that also pursued a similar policy towards Eastern Europe to subordinate those economies to its own system".

Stephen Blank,

Russia's New Gas Deal with China: Background and Implications// Northeast Asia Energy Focus. Vol. 6, No. 4. Winter 2009. p.27.

"Russia is pursuing a comprehensive energy strategy,
which masterfully integrates geopolitics and geo-economics."

Ariel Cohen,

Russia: The flawed energy superpower in Energy security challenges for the 21st century: a reference handbook/ Gal Luft and Anne Korins, eds. Santa Barbara: ABC CLIO. 2009. p.101.

ABSTRACT

Throughout the transition period, Russia was pursuing energy policy composed of a set of responses to external developments. In the wake of 2008 crisis, the government expedited formulation of a new long-term energy strategy targeted at creation of a comprehensive energy policy enhancing Russia's sustained development. Externally, Russia's 2009 decisions to postpone its WTO accession and refrain from the ECT ratification, sounded alarmingly. However, Russia's policy course taken in the overall setting was not entirely destructive. By proposing a conceptual framework for the international energy cooperation (April 2009), Russia has demonstrated its will to become an actor of the global energy governance. Recent transformations in Russia's energy policy can be read in the context of the country's pursuance to conceptualize its vision of energy security in a more holistic manner. Based on understanding about Russia's multirole status (producer, exporter, importer, consumer, and transiter) on energy arena, this work features Russia's foreign energy policy content's complexity, shows its diversity over space, and depicts its flexibility over time. This examination is undertaken through the prism of Russia's energy relations within three geographical loci: Europe, Central Eurasia, and Northeast Asia.

KEY WORDS

Russia, energy policy, Northeast Asia, EU, Central Eurasia.

Contents

ACRONYMS

CA - Central Asia

CA-3 – Kazakhstan, Turkmenistan, Uzbekistan

CE – Central Eurasia

CEE - Central and East Europe

CNOOC – China National Offshore Oil Corporation

CNPC – China National Petroleum Corporation

CU – Customs Union (Belarus, Kazakhstan and Russia)

EEZ - exclusive economic zone

ERI – Energy Research Institute, China

ESPO - Eastern Siberia - Pacific Ocean (oil pipeline)

EurAsEC – Eurasian Economic Community

FEC – fuel energy complex

FGEC – Forum of Gas Exporting Countries

IEA – International Energy Agency

IEEJ – Institute of Energy Economics, Japan

IEF – International Energy Forum

IOC – international oil company

JODI – Joint Oil Data Initiative

KEEI – Korea Energy Economics Institute

MED – Ministry of Economic Development

MET – mineral extraction tax

MoF – Ministry of Finance

MOFA – Ministry of Foreign Affairs

MoU – memorandum of understanding

NDRC – National Development and Reform Commission, China

NEA - Northeast Asia

NEA-3 – Japan, China, Korea

NOC – national oil company

PSA – production sharing agreement

SCO – Shanghai Cooperation Organisation

SINOPEC – China Petroleum and Chemical Corporation

SOE – state-owned enterprise

ToP – take or pay

TFEU - Treaty on the Functioning of the European Union (Lisbon Treaty)

UNITS

mn - million

bn – billion

tn – trillion

b - barrel

cm - cubic meter

t – tonne

$/t/km - $/ tonne/ kilometre

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INTRODUCTION

A well-known fact that Russia simultaneously acts as an energy producer, exporter, importer, consumer, and a transit state is not necessarily incorporated within the contemporary scholarship on Russian energy. For this reason, it is often disregarded that Russia's foreign energy policy is influenced by a broad range of factors acting both internally and externally. An intention to overcome normative perception of Russia's energy policy still prevailing in the scholarly literature and present a somewhat more nuanced account of some key developments in contemporary Russian foreign energy policy was one of the initial motives for commencing this study.

The purpose of this work is to examine what, why and how has changed in the Russian foreign energy policy throughout the transition period. Owing to Russia`s multi-role status in the global energy arena and asymmetry observed across domestic energy complex, the findings a priori cannot explain Russia's energy policy in its entirety. For this reason, the analytical lens of this work is set to reflect the concurrent existence of different frames in Russia's foreign energy policy and its flexibility over time.

Domestically, there are two particular aspects influencing energy policy-making. Firstly, it is a great diversity in the levels of socio-economic development across the country. Given the role the energy sector plays in the Russian economy, it is considered one of the most effectual engines for the industrial and economic revival of the depressed areas. Perhaps, the most telling example on this account is the contemporary history of the East Siberian and the Far Eastern energy resources development. Secondly, Russia' energy sector itself is not a unified space. Quite the opposite, a great asymmetry is observed across national energy complex; a mere glance at the map of Russia's pipeline network provides the best illustration to this. The most developed production base and infrastructure is situated in Russia's west, while such barely exists in the eastern part of the country. Thus, geography and economics of Russia's energy resources are those objective realities that considerably determine geography of the country's energy policy.

Externally, Russia's foreign energy policy is influenced by the factors of global politics and economy, as well as by the developments at regional and bilateral levels, and the dynamics of energy market. Despite variations in Russia's approaches within each of the geographical dimensions under scrutiny - Europe (first and foremost, the EU),

Central Eurasia (CE) and Northeast Asia (NEA) - some common features allow defining several policy patterns.

That is to say, Russia's contemporary energy policy towards Europe is significantly influenced by the EU's internal regulations and essentially shaped by the Russia-EU bilateral arrangements. Russia's energy relations with the EU expose, if not cooperation per se, then a certain extent of coordination in the policymaking process. It is safe to note that with regard to the EU, Russia demonstrates its readiness to abide by the market principles introduced in the EU energy governance and comply with the provisions of the EU's Third Energy Package, the Action Plans, institutional and regulatory novelties enacted after the Lisbon Treaty's adoption, etc. Despite Russia's eventual withdrawal from the ECT in 2009, the Russia – EU Energy Dialogue framework remains legitimate. Russia sees the EU as a counterpart enabling the most comprehensive mode of energy partnership, a partner through cooperation with whom Russia can effectively achieve its quadruple goal of improving energy security, energy efficiency of economy, the fuel energy complex's efficiency and ecological security (as stated in Russia's Energy Strategy 2030). On the whole, Russia's energy relations with the EU are characterised by strong symmetrical interdependency (largest supplier – largest consumer), which is additionally intensified by the both sides' deep dependency on transit. It is due to this complex combination of numerous aspects that Russia's energy policy towards the EU represents the most multifaceted pattern.

In Central Eurasia, Russia's energy policy currently undergoes rather profound changes. The pattern of cooperation pursued throughout the post-Soviet period (somewhat collectivist and influenced by residual Soviet-thinking) is transforming to reflect new realities of integration on the post-Soviet space, especially with the Central Asian countries' involvement (EurAsEC, SCO, Customs Union, etc.). However, there is even more important trigger for Russia's policy transformation. In the context of dramatically increased geopolitical significance of the region, the overall trend in the CEs' foreign polices is to expand the scale and modify the very nature of their ties with both the West and the East. In the energy realm, this translates into the CEs' policy of enlargement of their international cooperation and diversification of their oil and especially gas exports. This creates a new setting for the Russia-CEs energy relations.

Last but not least, Russia's energy policy with regard to Northeast Asia can be characterised as gradualist, implemented in a trial-and-error fashion and pursued

predominantly on a bilateral basis with a very slight degree of institutionalisation involved. Albeit Russia's NEA-oriented policy has many significant variations within the mode, its general attribute is that it is built upon a higher extent of tolerance of the Asian partners to the greater regulative involvement and controlling power of the Russian government in the sector. What is more, it is exactly this state's omnipresence that makes the Russian energy sector less risky and more attractive in the eyes of the NEA countries.

While belonging to already large stream of studies on Russian energy policy, this work is designed to complement the field in two particular aspects. Firstly, it features Russia's foreign energy policy not as a single monolithic mode. Rather, it perceives the Russian energy policy as composed of different patterns distinguishing among three policy paradigms, which geographically cover Europe, Central Eurasia, and Northeast Asia. The second nugget of novelty originates in a dynamic - as opposed to a static - vision of Russia's energy policy. Importantly, this study focuses not on evolutionary process per se, but rather concerns the cause-effect chain that sets off the policy transformation.

Setting Framework

Typically, Russia`s external energy policy is viewed as influenced by Great Power politics thinking. The characteristics of Russia's energy policy by Helm and Blank on the quotation page that opens this volume is a quintessence of the genre. Certainly, there are more – in the author's view – equitable assessments and analytical approaches, but an overall tone of the discussion on the nature of Russian energy politics is largely shaped by such views.

In pursuing impartiality, somewhat more inventive undertaking allowing a scrutiny of different prospects of this multifaceted theme is required. This work is designed to explore Russia's external energy policy highlighting its logic rather than passing judgment upon it. To delineate the scope of this study, several principle notes are needed at the outset.

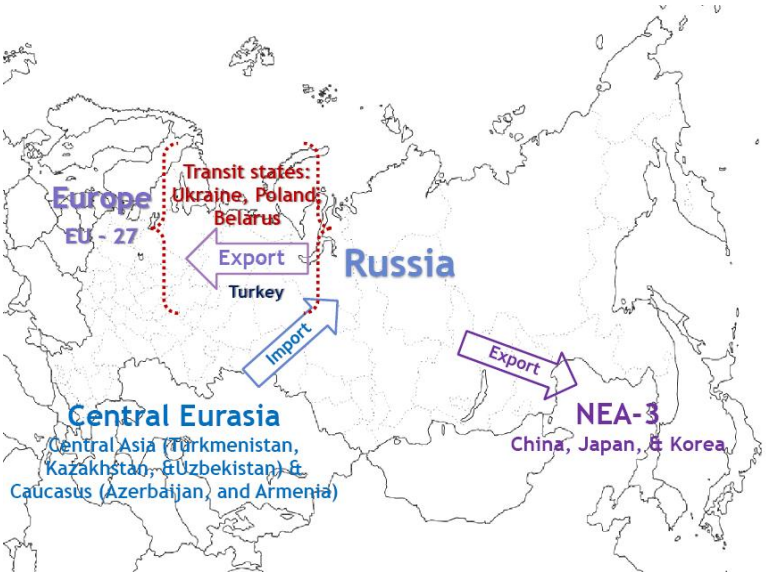
Throughout this paper, the 'energy policy', the 'energy sector', the 'energy cooperation', etc. is referred to as with regard to oil and gas, unless and when otherwise is specified.

The foreign energy policy of a country can be characterised as a system of views on the content, principles and main areas for energy cooperation with other countries. The actors of foreign energy policy are the states, which operate within a multi-layered system composed by various entities, including commercial and hybrid actors. Pursuing energy policy in a holistic manner, state applies a broad array of instruments (administrative, legislative, and economic), arrangements for international energy cooperation (bi- and multilateral, international, etc.), forms of international cooperation (trade, investment, etc.), etc. at every - national, regional and international - level of policy competence. These aspects constitute a sample for this research inquiry.

Closely interlinked with the country`s foreign policy, Russia's foreign energy policy is understood as influenced by a concept of multipolarity. Originally stemming from an intellectual debate between two traditionally existed in Russia major streams - Slavophiles and Westernizers, multipolarity thinking significantly developed throughout the post-Cold War period paying less attention to such conceptions as 'identity' and 'values', but rather concerned with the pragmatic aspects. Albeit political and geo-political reasoning for the energy policy conduct is by definition important, it nonetheless is not emphasised here; rather, the economic logic is equally incorporated into the current scrutiny. It is a principle decision given that the Russian energy sector has always been an export-oriented segment that enormously contributed to the nation's economic well-being.

The geographical focus of the study (apart from Russia) includes Europe, Central Eurasia, and Northeast Asia.

Map 1 Geography of Russia's energy ties.



Source: composed by the author

(blank map downloaded at
<http://english.freemap.jp/blankmap_dl.php?area=europe_e&country=russia&file_name=4.gif>)

A precise contour of each of the regions is described in the relevant chapters. Not geography per se, but a concern about the highest possible representativeness of the energy linkages between Russia and each respective region was a pivotal consideration here. That is to say, under Russian policy towards Europe mostly such vis-à-vis the EU is understood. Importantly, Russia-EU energy ties are examined as being mediated by a transit factor; presently - by linkages with Ukraine, Belarus, and Poland, and potentially - with Turkey. Furthermore, Central Eurasia as another focal dimension is formed to comprise Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan. These three Caspian Sea region states and Uzbekistan are major players not only in Eurasian energy affairs, but also far beyond this area. As regards Northeast Asia, while there is yet no agreed definition of it, the current work scrutinises the region as composed by China, Japan, and Korea, because of - quite obviously - the scale of these economies' energy demand, but also due to the intensifying Russia's energy cooperation with this troika.

The theoretical framework of this study is composed by neoclassical realism. In the process of formulation and implementation of energy policy, the states interact and the circle of actors is not limited to those directly involved: there are countries embraced indirectly through their high interest in the regional agenda, as well as the actors yet uninvolved but quickly rising to prominence in the given setting. For this reason,

international energy relations are always subject to a conflict-cooperation dilemma, and multidimensional mode of Russia's energy ties presents an example of this nature.

While periodisation is certainly not the end in itself, defining the time frames helps better determine the cause-effect relationship within the theme in question. The contemporary Russia`s energy policy is examined as evolved through several rather distinctive phases. Throughout 1991-2003, liberal conceptions dominated the policymaking in the sector, while from 2004 onwards gradual consolidation of state control (statism 2) has become the principal policy course. To be precise, from the outset of the market reforms, the oil and gas sectors have been developing under somewhat different scenarios. The gas industry, for instance, has been chiefly governed upon the practices pertaining to the Soviet era monopoly. Albeit not confirmed empirically, there is an assumption that this platform has been chosen purposefully as allowing stricter control over the sector where Russia's weight is significantly greater than that in the oil field. Having done so, the state arguably ensured itself a tougher grip over the matters of international scope.

Externally, 2004 also stands a somewhat watershed point, in particular, for the Russia-EU energy relations. After the EU embraced some of the post-Soviet states as its new members, anti-Russian sentiments within the EU strengthened affecting among others the field of external energy relations. This naturally resulted in changes in the EU's energy policy towards Russia. Additionally, the Orange Revolution of 2004 opened a period of Ukraine's estrangement from Russia. Such a course affected squarely all the areas of the Russia-Ukraine relations, including energy transit so sensitive for the Russia-EU ties. This has seriously undermined Russia's status as a reliable energy supplier of Europe and complicated the Russia-EU energy dialogue. Likewise in the context of NEA, 2004 became a break point. Given the momentum that the Yukos-led cooperation with China had then just gathered, not only the company's sudden ending wiped off all the cooperation plans, but it compelled the NEAs to reassess the prospects for further energy ties with Russia.

Sundry events from 2008 onwards (the Russia-Georgia War, financial crisis of 2008 and deep economic slump, etc.) have profoundly altered the energy policymaking environment. In an attempt to adequately face and respond to the changes, the government modified the policy. The analysis of the trends within the Russian energy

[2] Klare, M. (2008) Rising Powers, Shrinking Planet. The New Geopolitics of Energy. – New York: Metropolitan Books Henry Holt and Company.

policy after the 2008 crisis, reveals the government's deliberate attempt to reactivate the economic – as opposed to extensively practiced before administrative - levers. Taken together, these shifts – in the author's eye – may be interpreted as marking the beginning of a new phase in Russia's energy policy.

The methodological framework of the study is informed by interdisciplinary historical and systemic approaches, qualitative (interviews and elements of game theory) and quantitative methods.

The work is based upon information from a diverse array of sources, including policy papers, official and business reports, economic and political science journals, and interviews.

Organization of Study

This study is divided into three main chapters. Chapter 1 describes the norms and ideas informing Russian foreign energy policy. It is argued that throughout the transition period, a comprehensive energy policy built upon a solid strategy and backed by adequate policy mechanism was largely missing. This observation holds true despite the fact that at every point in time Russia has had a program document for the development of this vital segment. What was present was a policy composed as a set of responses to both domestic conditions and external developments. Russia has often followed a reactive – as opposed to a proactive - pattern of policy-making with substantial alterations depending on a counterpart. In the aftermath of the 2008 crisis, Russia expedited the formulation of a new long-term energy strategy targeting more specifically at modernization of the energy sector and enhancement of the national economy's energy efficiency. For this end, for instance, reforms in taxation and investment policy (including aimed at improving climate for the foreign capital) are being gradually undertaken. Externally, Russia's certain moves in 2009 - such as postponement of its WTO accession and an eventual rejection of the ECT - sent out rather grim signals. Taken in the overall context, however, Russia's policy course is not deliberately destructive. By proposing a conceptual framework for the international energy cooperation (April 2009), Russia has explicitly demonstrated its will to become an actor of the global energy governance where the issues of energy security of a supplier are attached equal (to those of a consumer) significance. The chapter's leitmotif is that the recent moves in Russian foreign energy policy can be read in the

context of the country's attempt to conceptualize its vision on energy security in a more holistic manner.

Chapter two analyses Russia's energy policy towards Europe, Central Eurasia, and NEA, correspondingly. Each geographical context is scrutinised upon a three-tier mode. It contains a brief retrospective overview of Russia's energy ties with each region is presented, provides a quantitative analysis of the key data revealing the trends in the energy cooperation, and scrutinises the impetuses and impediments for Russia's energy policy transformation within every region-specific context.

The concluding chapter features Russia's energy policy flexibility over space and time by representing its variability and changeability across and within respective geographical dimensions. A view on possible scenario of Russian policy towards Europe, Central Eurasia, and Northeast Asia is presented, and the implications of Russian policy shifts for other parties concerned are delineated.

1 Ideas and determinants informing Russia`s foreign energy policy

"… [W]hether a prince rules a state strong enough to enable him to stand on his own or whether he will always need the protection of others".

Niccolo Machiavelli, The Prince. London: Vintage Books, 2008. p. 37.

"The meek shall inherit the earth, but not its mineral rights".

John Paul Getty (1932-2003), American-born British philanthropist

Russia's energy policy is generally seen as an offensive and predatory course of actions aiming to endanger the positions of the states locked into energy relations with it. The quotes' page prefacing this work illustrates this perception. However, and since the energy affairs are driven by forces acting within and across such sundry realms as relations between producing and consuming countries; balance of considerations on competition and regulation; correlation between the imperatives of economic development and sustainability, etc. it is important to understand that a state's energy policy is a result of a government's effort to bring all the factors of these numerous spheres to a right equilibrium that suits best national interests.

While conducting foreign energy policy, the government addresses the entities (first and foremost, NOCs and IOCs) and space in both domestic (resource-rich regions) and international (bi- and multilateral arrangements) scopes. Obviously, an array of factors informing and influencing policymaking is broad (refer to Table 1).

Table 1 Typology of factors informing energy policy domestically.

Factor	Characteristics
natural	oil &gas reserves` volume, location, etc.
institutional	legal structure (ownership, scope & structure), informal structure & balance of capacity & influence between government and business elite, contractual & international obligations (OPEC, FCEG, ECT, WTO, etc.), history of sector (disputes between NOCs & IOCs, etc.), etc.
economic	economic development (structure of industrial & service output, human capital, employment, etc.), degree of dependence on energy revenues, disparity in regional development, economics of energy resources (accessibility, availability, sufficiency, feasibility, ratio of replacement, etc.) etc.
financial	availability, sufficiency, structure (private investment & state capital), terms of allocation, etc.
technological and technical	availability, adequacy, and accessibility; including import regulation (tariff and non-tariff), etc.
infrastructural	availability, density, accessibility, construction and exploitation costs, transport (transit) tariff, etc.
informational	availability, transparency, reliability, consistency, compatibility, etc.
legislative	stability, predictability, consistency, etc.
political	legitimacy of political elite's involvement into decision making process, etc.
bureaucratic	staffing and cadres, administrative apparatus' representation on the BD , etc.

Source: composed by the author.

Furthermore, the energy governance is tailored through the mechanisms that imply a varying - from indicative to coercive - extent of power applicable within different – domestic, bi-/ multilateral and global – frames (refer to Table 2).

Table 2 Energy policy tools.

	Domestically	Externally
Settling	System of governing bodies (ministries & agencies) Technological/ technical/ scientific policy Resource diplomacy	Working groups/ task forces Energy ministers' (senior officials') meetings Energy dialogue MoU Technological/technical agreements
Regulatory	Taxes and subsidies Export/ investment promotion Promotion of 'national champions' Direct governmental investment	Double taxation avoidance agreement Official exchanges on climate change mitigation IEF JODI Potentially: WTO (TRIMs, TRIPS, etc.), ECT, etc.
Controlling	Licensing and tendering Government oversight of companies Case-specific laws & regulations (shelf, strategically significant deposits, etc.) Structure of ownership (favouring NOCs, barring private & IOCs from certain segments) Price manipulation/ intervention Role and use of environmental regulations	State-to-state commodity deals Preferential investment access Membership in GECF Cooperation with OPEC Joining internationally initiated sanctions/ embargos

Source: composed by the author.

In the following, the study zooms in on how Russia formulates its interests in the energy arena, what are the factors informing Russia's policy-making environment, and what are the impetuses behind Russia's energy policy transformation.

1.1 Russian Foreign Policy through the Prism of Geopolitics and Theory of International Relations

"Geography is the most fundamental conditioning factor
in the formulation of national policy because it is the most permanent."

Nicholas Spykman,
Geography and Foreign Policy// American Political Science Review 32 (1938): 29,
and America's Strategy in World Politics, 41.

The disintegration late in 1991 of the world's territorially
largest state created a "black hole" in the very center of Eurasia.
It was as if the geopoliticians' "heartland" had been suddenly yanked from the global map".

Brzezinski, Zbigniew (1997)
The grand chessboard: American primacy and its geostrategic imperatives. New York: Basic Books. p. 87.

There are plenty of meanings and connotations in the contemporary uses of the word 'geopolitics', which seem to be rather implicit, but in effect are often contradictory. Most of the time, geopolitics is about relations between the states within a certain geographical context.

As the renowned geostrategist Nicholas Spykman noted "The geography of a country is rather the material for, than the cause of, its policy… But the geography of a state cannot be ignored by men who formulate its policy. The nature of the territorial base has influenced them in that formulation in the past and will continue to do so in the future".[3] This nevertheless does not suggest considering a policymaking environment from a static prospect, because "[g]eographic facts do not change, but their meaning for foreign policy will".[4]

An analysis involving a specific facet of international relations necessitates an expansion of purely geographic outlook. Interrelations between the physical environment and the politics are studied by political geography, to which geopolitics is "one of the subjects".[5] In turn, geopolitics is not a monolithic area of knowledge; it embraces a number of schools, some of which are more practically-oriented, while the

[3] Spykman, Nicholas J. (1938), Geography and Foreign Policy I, in "American Political Science Review", N. 1, February, pp. 28-50. p. 30
[4] Ibid.
[5] Glassiner, Martin Ira (1996) Political Geography. New York: John Wiley & Sons, Inc. p. 322.

others refrain from entering the realm of applied studies dwelling in purely academic area.[6]

The current study is developed against neoclassical concept of geopolitics, which corresponds to what geopolitics is commonly expected to be: a study about effects of geographical position and other geographical features on a foreign policy of a state and its relations with other states. In such interpretation, neoclassical geopolitics is concerned with the strategic value of geographical factors (resources, access to the sea, etc.) and closely related to the tradition of political realism in international relations (the power politics school of thought).

The geographical continuum under scrutiny - Eurasia - has traditionally occupied a focal place in the geostrategic studies. Debates on whether land or sea power is more significant, and which particular part of Eurasia is imperative in gaining control over the entire continent have constituted the core of the early theoretical discussion on geopolitical structure of the world. Suffice it to refer to the early 20th century conceptions formulated by Halford Mackinder - the spatial-functional structure of the world as the Pivot (1904)/the Heartland (1919) – Eurasia – the Planet ("Who rules East Europe controls the Heartland; who rules the Heartland commands the World-Island [the entirety of Eurasia]; who rules the World-Island commands the World"), and, several decades down the line elaborated on by Nicholas Spykman - the Rimland – Eurasia – the Planet (Who controls the Rimland rules Eurasia; who rules Eurasia controls the destinies of the world"[7]).

In the Cold War aftermath, studies on Eurasian geopolitics have seen resurgence. A major risk of economic conflicts and great power regional rivalry in Central Eurasia[8] have changed the region's image so drastically that Zbigniew Brzezinski coined Russia a 'black hole' and referred to the region made up of Central Asia, the Caucasus, and Afghanistan (with potential addition of two other "significant geostrategic players" - Turkey and Iran) a 'Eurasian Balkans'[9] implying extreme volatility and instability in the states formed following the demise of the USSR. At the same time, the Eurasian Balkans' importance is ranked highest because it allows transport connection between "Eurasia's richest and most industrious western and eastern extremities" and

[6] Mamadouh, Virginie (1998) Geopolitics in the nineties: one flag, many meanings// GeoJournal, Vol. 46, No. 4.
[7] Ismailov, Eldar (2008) Central Eurasia: Its geographical function in the 21st century// Central Asia and the Caucasus. 2 (50). pp. 7-29.
[8] Consists of the five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) plus the three south Caucasus countries of Armenia, Azerbaijan and Georgia. See: Marketos, Thrassy N. (2009) China's energy geopolitics. The Shanghai Cooperation Organization and Central Asia. London & New York: Routledge, pp.1-2
[9] Brzezinski (1997), pp. 87, 123, respectively.

possesses geopolitical significance. What is more, "the Eurasian Balkans are infinitely more important as a potential economic prize: an enormous concentration of natural gas and oil reserves is located in the region, in addition to important minerals, including gold".[10] This very observation explains contemporary international relations involving the region.

Having noted that "[t]oday, the geopolitical issue is no longer what geographic part of Eurasia is the point of departure for continental domination, nor whether land power is more significant than sea power", Brzezinski argued that "[g]eopolitics has moved from the regional to the global dimension, with preponderance over the entire Eurasian continent serving as the central basis for global primacy..." [11] and introduced the classes of "active geostrategic players" ("the states that have the capacity and the national will to exercise power or influence beyond their borders in order to alter …the existing geopolitical state of affairs) and "geopolitical pivots" ("the states whose importance is derived not from their power and motivation but rather from their sensitive location and from the consequences of their potentially vulnerable condition for the behaviour of geostrategic players"). Observing that "…although all geostrategic players tend to be important and powerful countries, not all important and powerful countries are automatically geostrategic players…" Brzezinski named France, Germany, Russia, China, and India the key geostrategic players and Ukraine, Azerbaijan, South Korea, Turkey, and Iran "critically important geopolitical pivots, though both Turkey and Iran are to some extent - within their more limited capabilities - also geostrategically active".[12]

Objectively speaking, geopolitics theoretical edifice was created to serve the strategic interests of the UK and the US, but not to explain objective global geopolitical process. These approaches nonetheless remain plausible in the way they offer a regional geopolitical structuralization of the Eurasian content and identify the functional value of its spatial segments. It appears well for this reason that Mackinder's, Spykman's, and Brzezinski's models of the world's spatial-functional structure have become particularly 'popular' as a theoretical framework for geopolitically-tuned energy studies focused on Eurasia.

[10] Ibid, p. 124.
[11] Ibid, p. 39.
[12] Ibid, pp. 41-42.

History proves the existence of abundantly clear connection between the geography of energy resources and the consequent character of interaction between the global powerhouses' geopolitical preferences and smaller players' interests. As said above, the geography per se is a constant parameter, but the geography of energy resources is certainly - and increasingly - not. Rather radical shifts in the geography of energy that occur from time to time may be triggered by different factors (discoveries of new deposits, new transport means, advanced upstream technologies, structural shifts in energy markets, [13]etc.), but they inevitably stir up a new round of competition between the states aspiring for a better stature in a given sector and region (and, in fact, even well beyond). Central Asia (Caspian Sea region, Central Eurasia, or more broadly Central Caucasasia)[14] is but one telling example of this kind. Indeed, the geopolitical profile of the area has risen so prominently that no analysis of contemporary global energy affairs excludes this region where the 'Great Game' has taken off again.

Positioned within the area of international relations, energy ties can be examined through the lens of interdependency and two principal approaches – realist/neo-realist with the emphasis on political dependency and liberalist accentuating market dependency – define the analytical focus.

The pivotal foundations of the *realist theory are the* relationship between wealth and power, expectations of war, and the nature of the state.[15] The realists believe that the international system is in anarchy with no central authority to enforce cooperation. Cooperation originates in interdependence, which in turn is informed by dominance and dependence. Since the dependent party is apparently more susceptible to the choices of the dominant party, the realists suggest that the state should be primarily concerned about minimizing its dependence.[16] Thus, in principle the realist school admits the possibility of cooperation but tends to place it within a continuum of conflicting and complementary interests. In their view, cooperation occurs when the actors adjust their behaviour to the actual or anticipated preferences of others.[17] Game theory provides a

[13] "[R]elative importance of oil and gas is ... undergoing a quiet revolution" with the corollary being that "[t]he old "oil game" is becoming an "oil and gas game," and will become more of a "gas and oil game" before the next energy paradigm shift occurs". in Global Energy Expert Joseph A. Stanislaw Assesses the Challenges Facing the European Union in Creating a Secure Energy Future [http://www.nord-stream.com/fileadmin/Dokumente/Images/Press/events/Forum/Nord_Stream_Forum_Joseph_Stanislaw_Handout.pdf]
[14] For a debate on geographical terminology concerning the region see, for one: Papava, Vladimer (2008) "Central Caucasasia" instead of "Central Eurasia" // Central Asia and the Caucasus. 2 (50). pp. 30-42.
[15] See, for instance, Kirshner, Jonathan (1999) The political economy of realism/ In Ethan Kapstein and Michael Mastanduno, eds., Unipolar politics: Realism and Sate strategies after the Cold War. – New York: Columbia University Press.
[16] See: Viotti, P.R. and Kauppi, M.V. (1999) International Relations Theory: Realism, Pluralism, Globalism, and Beyond. Boston, MA: Allyn & Bacon.
[17] See: Axelrod, R. and Keohane, R.O. (1985) Achieving cooperation under anarchy: Strategies and institutions// World Politics. No. 38. pp. 226–254.

somewhat generalised illustration of the mechanism behind the international cooperation in realist setting.

Neorealism (or structural realism) shares an anarchical vision of the international system and assumes that the increase in material capabilities motivates the state to seek hegemonic power more vigorously, thereby activating a zero-sum game scenario. Sharing the realist state-centric position, the neorealists, nonetheless, believe in a better chance for international cooperation by emphasizing economic considerations, such as acquiring economic wealth.[18] At the same time, neorealists see cooperation as conditional because the states are concerned not only about the increase of their own power or wealth - absolute gains, but more importantly about how much this increase is when compared to other states. In other words, relative gains is what define the choice between cooperation and conflict in anarchic world.[19] Neorealists recognize the role of international regimes in facilitating international cooperation, but argue that the states` self-interest is the major force behind the international regimes.[20] Such somewhat inferior role of international law and international organizations is contested by the *institutionalists,* who emphasize importance of the absolute gains and argue that international regimes helps sustain cooperation by providing information and reducing uncertainty.[21]

Neoclassical realism combines ideas of realism and neorealism.[22] Neoclassical realism holds that foreign policy of a state is a function of three groups of variables: systemic (such fundamental, for instance, as distribution of power capability among states), cognitive (perception of systemic pressures and threats, other states' interests, etc.), and domestic (state's institutions, elites, societal actors, etc.). Neoclassical realists distinguish between power and foreign policy interests (as opposed to realists concerned about power as an end in itself). In their view, power is a function of capabilities and resources of the states with which they can influence one another. A state's foreign policy goals drive a country's external behaviour, but domestic perception of the system and domestic incentives are also incorporated as an intervening variable. The foreign policy decision, thus, is a dependent variable based

[18] Krasner, Stephen (1982) Regimes and the limits of realism: Regimes as autonomous variable// International Organization. No. 36. pp. 497–510; and Krasner, Stephen (1982) Structural causes and regime consequences: Regime as intervening variables// International Organization. No. 36. pp. 185–205.
[19] Waltz, K. (1959) Man, the state, and war: A theoretical analysis. New York: Columbia University Press.
[20] Stein, A. (1993) Coordination and collaboration: regimes in an anarchic world/ in D.A. Baldwin (ed.), Neorealism and Neoliberalism: The Contemporary Debate, pp. 29–59. New York: Columbia University Press.
[21] Keohane, Robert O. (1988) International institutions: Two Approaches// International Studies Quarterly 32: 379-396.
[22] Neoclassical Realism, the State, and Foreign Policy (2009) Ed. by Steven Lobell, Norin Ripsman, and Jeffrey Taliaferro. Cambridge: University Press, 2009.

on the distribution of power in the international system together with domestic perceptions and incentives.

Neoclassical realist theory argues that the scope and ambitions of a country's foreign policy are driven most and foremost by its place in the international system, and more specifically by its relative material power capabilities. Neoclassical realists differ from classical realists and neorealists in terms of the motivation of states as well. According to them, states do not seek security per se but attempt to respond to the uncertainties of international anarchy by seeking control and shaping their external environment. A state's inability to perceive one another accurately, mistrust, and other failures cause imbalances within the international system, accompanied by transformations, which in extremes may lead to the rises and falls of great powers and even wars.

In contrast to the realists' thinking, the *liberals* regard interdependence as a key category in explaining world politics. In their view, interdependence has benign implications. Unlike the realists who take the state as a united actor, the liberals see the state as a representative institution of different social actors, and the governmental policy as constrained by the underlying identities, interests, and power of individuals and groups who continually call on the central decisionmakers to pursue policies consistent with their preferences. In international stage, however, the state`s behaviour is not automatically decided by the nature of state institutions on par with societal interests: it is also impacted by varying constraints imposed by the preferences of other states. [23] Thus, the liberal theory believes the power that the state exerts on the international stage is tempered by the institutional practices.[24]

Acknowledging conflict and cooperation as states` fundamental behavioural strategies, liberalism assumes that international organisations with their regulative norms, rules, and governing procedures, help states to cope with uncertainty and pursue their interests cost-effectively. At the same time, it is recognised that the international politics is driven by domestic sources: a state`s foreign policy behaviour in general, and its war-prone behaviour in particular, depends more on specific type of national government or social system than on structure of the international system.

[23] Moravcsik, Andrew (1997) Taking preferences seriously: a positive liberal theory of international politics// International Organization. No. 51 pp. 513–553.
[24] Slaughter Burley, Anne-Marie (1993) International law and international relations theory: A dual agenda// American Journal of International Law. 87: 205-239.

While admitting the realist arguments that states are the principle actors of the global political affairs pursuing their own interests, the *neoliberals* claim that the opportunity for international cooperation is better than realism assumes. There is a notion, though, that neoliberal perspective is relevant to the international system only if the actors have some mutual interests and may potentially gain from their cooperation. If there is a lack of mutual interest, the neoliberal thinking would considerably overlap with neorealism. Neoliberals recognize that states' interests in relative gains make cooperation more difficult, but the number of actors may change the impact of relative gains: the larger number of actors the smaller concern over relative gains. [25] Neoliberals believe that international regimes can help the self-interested states to cooperate when opportunities for joint gains through cooperation are substantial, because the states' obsessions with relative gains will diminish. On the other hand, concern about relative gains only matters when gains in one period alter power relations in another, and when there is some likelihood that subsequent advantages in power may be used against oneself.[26] Neoliberal institutionalists suppose that establishing some form of institutional structure would ameliorate conflicts of material interests leading to a positive-sum game.

Mainstream neorealists accept the core assumptions of neoliberal institutionalists. In particular, their views converge on the argument that power comes from productive capability and productive capability arrives from economic growth. What distinguish realism from other schools of thought are two fundamental assumptions, which regard war and a state. Realists expect states to prefer high rates of economic growth, but they also assume that states must anticipate the possibility of war. Potential war becomes a dominant factor determining the state`s behaviour preventing it to step up a policy that threatens national security. Realists stress that given the possibility of war, a state prefers to limit interdependence, retain a reservoir of resources, and even forgo some of economically beneficial transactions.

For the most part, international energy relations are shaped by the dominance of politics over economics. This general perspective can be more or less prominent within certain geographic context depending, for instance, on such aspects as reserves' distribution and pipelines' routing which transform purely geographical factors into political and geopolitical variables in their traditional interpretation.

[25] Snidal, D. (1991) International cooperation among relative gains maximizers// International Studies Quarterly. No. 35. pp. 387–402.
[26] Keohane, Robert O. (1993) Institutional theory and the realist challenge after the Cold War/ in D.A. Baldwin (ed.), Neorealism and Neoliberalism, The Contemporary Debate, pp. 269–300. New York: Columbia University Press.

Assuming that international energy relations are prone to an intrinsic tension between cooperation and conflict, a change in the policy paradigm should be stirred up by the state's major dissatisfaction with the existing 'balance sheet' of gains at some critical juncture. In turn, policy shifts undertaken in pursuance of some additional benefits tend to involve a certain degree of trade-offs with regard to the interests of other parties concerned.

Generalising concepts of energy, they can be divided into two principal classes; those developed predominantly along geopolitical paradigm and those informed by economic thinking. While the former treats energy as a strategic/ public good advocating a zero-sum nature of cooperation-conflict relationship (Campbell 2005, Klare 2008, Blank 2009, Tekin & Williams 2009, Luft & Korin 2010, etc.), the latter is preoccupied with the market-oriented concept viewing energy as a common/ internationally tradable good (Yergin 2007, Finon & Locatelli 2007, Stanislaw 2008, etc.). These streams of 'securitization' and 'commodification' of energy are not mutually exclusive, but the focus refines an approach to the issue of energy security, which, in turn, underpins the entire edifice of the state's energy policy. [27]

Yet again, regardless of which of the two focuses is set dominative, energy security inescapably rises as a pivotal issue of (global) energy governance and international relations (at large).[28] Owing to the complexity of the issues involved, energy security can be examined from various aspects. Following this general divide into geopolitics and economics, energy security of a state is either more closely linked to traditional foreign and security policy, or seen as one of the dimensions of a state's foreign economic policy. The problem of energy security has also different scales. In most of the instances, it is dealt with upon a state's perspective (most tellingly, the US' energy security), but also supranationally (with the EU being an illustration to the point), and regionally (energy security in Northeast Asia, for instance).

Speaking of a scope broader than one state, the concept of interdependence argues that energy ties between the states located in a close geographical proximity consequently intensify the degree of security interdependence between the actors inside such regional complex: "[S]ince most threats travel more easily over short

[27] See: Energy security: economics, politics, strategies, and implications (2010)/ Carlos Pascual and Jonathan Elkind, eds. Washington: The Brookings Institution, and Energy and the transformation of international relations: Towards a new producer-consumer framework (2009)/ Andreas Wenger, Robert W.Orttung, and Jeronim Perovic. Oxford: Oxford University Press.
[28] See, for instance, Energy security: economics, politics, strategies, and implications (2010)/ Carlos Pascual and Jonathan Elkind, eds. Washington: The Brookings Institution, and Energy and the transformation of international relations: Towards a new producer-consumer framework (2009)/ Andreas Wenger, Robert W.Orttung, and Jeronim Perovic. Oxford: Oxford University Press.

distances than long ones, security interdependence is normally into regionally based clusters".[29] Also, from a regional security complex theory[30] angle, it can be assumed that energy security sentiment is profoundly influenced by a 'historical memory', which in the extreme shapes either a climate of amity or enmity. This in turn determines how the energy dependency is perceived: as a mutually beneficial interdependency (symmetrical dependency) or as a threatening dependency (asymmetrical dependency).

In most instances, energy security is approached upon geopolitical grounds, and embodies the demand-sided perspective. To be objective, there is a new stream of studies treating energy security as public goods and thus placing it within the realm of public policy. Nonetheless, since the theoretic platform of geopolitics has been developed by the most powerful states, which incidentally are but all large energy importers, the concept of energy security reasonably reflects mostly demand-sided concerns. And here lies the seed of most energy conflicts: producers/exporters and consumers/importers of energy resources may operate by the same – volume, price, and continuity – categories, but the parameters paid attention to are different; the two sides emphasize their interests and formulate their concerns differently (refer to Table 3).

Table 3 Energy security: Example of differing perceptions.

consumer and importer's interpretation	producer and exporter's sentiment
VOLUME	
sufficiency of supply	adequacy of demand to developed resources and built infrastructure
PRICE	
affordability of energy resources ensuring sustainable economic development	satisfactoriness - revenue enabling extended reproduction (replacement of resource base and expansion of transportation means)
CONTINUITY	
stability of supply within context of policy aimed at enhanced self-provision ratio	predictability of demand implying guaranteed capability to meet demand at every certain point in time; and reliability of stakeholders involved in fulfilling supply commitments (intermediaries, e.g. transit states)

Source: composed by the author.

The concept of energy security underpins the whole edifice of a state's energy policy. Thus, a state concerned about security of supply tackles the problem through a broad array of means including such as investments in the domestic energy systems and

[29] Buzan, Barry (1991) People, States, and Fear: An Agenda for International Security Studies in the Post-Cold War Era. Harvester Wheatsheaf, Second edition. p. 190.
[30] Buzan, Barry, and Waver, Ole (2010).

supply chains to ensure their adequacy and resilience, or support for the national companies' overseas projects enabling domestically-oriented exports, etc. Security of energy demand, in turn, requires a system of measures for structural and geographic diversification of exports, investments in upstream and energy distributing sectors, expansion along the value added chain, etc. Importantly, the contemporary understanding of energy security - in either of the two formats – reflects the evolution of the traditional concept, as sustainability becomes a crucial element of energy security. [31] Accordingly, nowadays energy policy embraces issues of climate change policy, investment in energy saving and energy efficiency, enhancement of technical and technological progress in production and processing, spatial and structural optimization of energy infrastructure, harmonization of regulatory frameworks, etc.

This study is developed upon the notion that it is neither purely (geo)political nor exclusively economic considerations that shape alone the contour of a state's energy policy at any – sectoral, national, regional, or global - level. Given Russia's multirole status on the energy arena, '(geo)politics vs. economics' divide seems especially misleading and therefore inappropriate. Russia increasingly prioritises the imperatives of the enhanced development and masters its energy policy so as to shield the domestic economy from the existent uncertainties and potentially detrimental external effects. In general, neoclassical realism appears to offer a more pertinent platform for the analysis of Russia's contemporary foreign energy policy.

1.2 Energy Policy within National Priorities Context

"Russia is an energy superpower that uses its vast resources as the basis of economic development and as an instrument for carrying out domestic and foreign policy."

Stanislaw, Joseph A.
Power play – Resource nationalism, the global scramble for energy, and the need for mutual interdependence. Deloitte Center for Energy Solutions. 2008. p.9

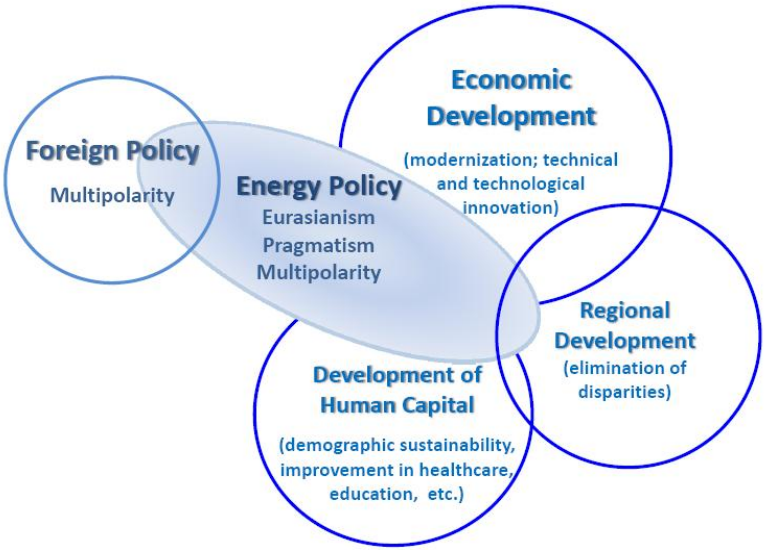
Strengthened economically during the years of high oil prices, Russia has eventually started formulating more ambitious political and geopolitical goals, and has consequently been perceived as a state aspiring for a greater power. Increasingly,

[31] Alhajii A.F. (2007) What is energy security? Definitions and concepts// OGEL. Vol. 6 – Issue 3. November 2008.

Russia's every decision on energy affairs that mismatched expectations of the partners in the West was interpreted as nothing but another act of using 'energy weapon' and 'flexing energy muscle' in the country's pursuance of foreign policy aims. This general perception about Russia's energy policy as well-integrated into the country's foreign policy was – and well may be still is - dominating the studies on Russian energy. In reality, though, energy policy often played a role of a multiplier but not a cause. The examples that "if the underlining character of Russian relations with certain country favours rivalry, the politics of energy will take on this character and add to it", and "[c]onversely, if in general, a more cooperative spirit prevails, energy will be a reason and means to deepen it"[32] are (as will be shown later) ample.

Russia's foreign energy policy can be characterised as influenced by (geo)-political and economic considerations (refer to Graph 1).

Graph 1 Energy policy in the context of national priorities.



Source: composed by the author.

Reacting to rather profound shifts of the past several years and anticipating new changes in domestic and external setting, Russia has revisited its strategic views of the country's role in the international system and consequently developed a range of long-term policy documents in the realms of foreign and economic policy.

[32] Legvold, Robert, Russia's Strategic Vision and the Role of Energy in Russian Energy Policy and Strategy// National Bureau of Asian Research. NBR Analysis. Vol. 19, # 2, July 2008. pp. 19-20.

On the foreign policy facet, these following recently adopted documents (refer to Table 4) establish the fundamentals of Russia's contemporary policy.

Table 4 Russia`s major foreign policy documents.

Date	Policy document
12 July 2008	Foreign Policy Concept (FPC)
31 August 2008	Statement by RF President on principles of foreign/security policy
12 May 2009	National Security Strategy until 2020 (NSS)
5 February 2010	Military Doctrine (MD)

Source: composed by the author.

Each of the above documents serves a specific task and addresses a particular sphere, nonetheless analysing them jointly allows the identification of some salient characteristics of Russia's foreign policy.

It has been stated elsewhere that Russia has reasserted its ambitions and resumed the Great Power politics. Albeit in reality such observation does not hold true all the time, the readings of the official documents do warrant the conclusion that the course of Russia's foreign policy is formed along such a perception. For instance, the NSS opens with the statement that Russia has overcome the effects of the systemic political and socio-economic crisis of the late XX century – it stopped the fall in the level and quality of life of Russian citizens, repelled the threats of nationalism, separatism and international terrorism, prevented the discredit to the constitutional order, preserved its sovereignty and territorial integrity, and being one of the key actors of the emerging multipolar international relations Russia has restored its ability to build up its competitiveness and defend national interests.33 The NSS underscores "security through development" as a fundamental principle of Russia's foreign policy. It also emphasizes Russia's intention to pursue a pragmatic foreign policy that excludes costly confrontation and is developed upon the principle of providing reliable and equal security for all states.

Generalizing on the documents' contents, it can be noted that all of them single out the importance of a multi-polar world built upon a system of international law. Cooperation and maintenance of friendly relations with all countries is emphasised as one the principal priorities of Russia's foreign policy. On the multilateral level, cooperation with

[33] The Strategy of National Security of the Russian Federation (May 12, 2009) < http://www.scrf.gov.ru/documents/99.html>

the G 20, G 8, and BRIC is underscored as particularly consistent with Russia's interests and important for strengthening its stature in the international arena.

With regard to geographical priorities of Russia's foreign policy, they are defined against Russia's concern about protection of Russians abroad. The task "[t]o provide comprehensive protection of rights and legitimate interests of Russian citizens and compatriots abroad"[34] was reiterated in the newly approved FPC (albeit compared with the FPC 1997 and 2000, the wording was somewhat softened). This provision highlights the areas of Russia's prime interest (the CIS) and identifies potential means of projecting such interests. Another move that added clarify to the contour of the areas of Russia's interests occurred in the aftermath of the Georgian war. In his statement on the principles of Russia's foreign policy on August 31, 2008, the Russian President affirmed that Russia would seek to develop ties in the regions where it has traditionally had friendly relations, and noted that "Russia, just like other countries in the world, has regions where it has its privileged interests."[35] The latter first and foremost include the FSU.

Completing on the grounds essential for better grasping of Russia's energy policy, the FPC, NSS and MD[36] formulate the following priorities:

- to restore the country's great power status enabling it to influence international developments (NSS: Russia has all the potential to become one of the world's five biggest powers);

- to safeguard national interests through the foreign and security policy conduit;

- to further enhance amicable relationships in the East (particularly with China, India, the CSTO and SCO members); etc.

The FPC holds that while ensuring sustainable development of the domestic economy and contributing to the maintenance of balance in the world's energy markets, Russia continues to build up and modernize the capacity of the fuel and energy industry. Additionally, assuming that Russia's energy security is linked to stability of demand and security of transit, Russia aims at strengthening partnership with the leading energy

[34] The Foreign Policy Concept of the Russian Federation July 12, 2008 <http://eng.kremlin.ru/text/docs/2008/07/204750.shtml>
[35] RIA Novosti. August 31, 2008 <http://en.rian.ru/world/20080831/116422749.html>
[36] The Military Doctrine of the Russian Federation. February 5, 2010 < http://news.kremlin.ru/ref_notes/461>

producers and developing active dialogue with the consumers and transit countries in accordance with the principles of energy security adopted by the G8 Summit in Saint Petersburg in 2006.

The NSS underscores significant geopolitical importance of the regions possessing energy sources, such as the Middle East, the Barents Sea, and the Arctic,[37] the Caspian Sea, and the Central Asia. The NSS asserts that increasingly scarce energy resources create a threat of potential armed conflicts.[38] Indicative of the crucial importance attached to energy (both resources per se and security) is the fact that the NSS mentions this aspect in the chapters dealing with "Russia in the world community", "National defence", "Raising the quality of life" and "Economic growth". The NSS defines energy security as one of the major focuses of national security in the economic sphere [italicised by the author]. It is emphasised that in order to ensure national and global energy security, Russia seeks multilateral cooperation in developing international energy markets based upon the WTO principles, international exchange in energy-saving technologies and alternative energy sources.

Albeit the NSS addresses the issue of energy security, the term's content and connotation remain, to put it mildly, blur. That is to say, energy security is described as the ability to supply energy in required quantity and of required quality; to ensure the efficient use of energy resources through improving the competitiveness of domestic producers; and to prevent energy resources shortages via such means as establishment of strategic fuel reserves, creation of spare capacities and equipment, and assurance of stable functioning of electricity and heat supply systems. Despite the fact that the elements of Russia's energy security are elaborated and explained in more detail in another issue-specific document - the Energy Strategy until 2030,[39] such insufficient attention to one of the most crucial components of the national security revealed in the NSS appears deeply disappointing.

As the very design of this study underlines the presence of several geographical priorities in Russia's energy policy, it seems necessary to briefly characterise how this aspect is incorporated in Russia's vision of foreign policy.

[37] Here the NSS correlates with the Foundations of the Russian Federation's National Policy in the Arctic until 2020 and beyond (September 18, 2008).
[38] The National Security Strategy of the Russian Federation until 2020. May 12, 2009 http://news.kremlin.ru/ref_notes/424
[39] Energy Strategy of the Russian Federation until 2030 (November 13, 2009). pp. 13-16.

With regard to geographical priorities in Russia's foreign policy, relations with the West – for the most part, with the US and the EU - constitute the primary frame of reference. The Cold war legacy of bipolarity was the main reason for the ingrained Western-centrism of Russian foreign policy, but also trade, technical, and - much more so - energy cooperation with Western Europe have naturally formulated Russia's foreign policy agenda as focused on the West.

Russia's contemporary foreign policy is traditionally examined through a 'West vs. the East' prism. This West-East intellectual debate was originally generated by the Slavophiles and the Westerners back in 1830 -1840 in their attempt to define Russia's identity and its place in the world. The principal divide between the proponents of the two camps was along the question should Russia retain its uniqueness and remain an inward-oriented country or should Russia adopt progressive achievements of the West and attempt to become a harmonious part of it. A large number of schools of thoughts concerned with the relation between Russia's geographical position, its identity, self-perception, and behavioural pattern derived from this fundamental discussion. While for reason of space this work does not dwell on the evolution of the latter,40 it briefly outlines an overall setting of Russian foreign policy.

As was noted, Russian foreign policy is underpinned by the tenet of multipolarity. Albeit the origin of the concept dates back to mid-1960 and is associated with gradual recognition of the growing importance of Japan and China, the genuine approval of multipolarity as a policy principle occurred by the mid-1990s. Then Foreign Minister Andrey Kozyrev, known for his prominent pro-Western views, eventually admitted that the 21st century world would become multipolar with the Asia Pacific playing a significant role in it. Yet, it was Kozyrev's successor from 1996 Evgenii Primakov who is credited with a full-fledged post-Soviet advocacy of multipolarity. Here again it is important to note, that until about the late 1990s, multipolarity was somewhat narrowly focused on how to restrain the US influence in the world and accordingly enhance Russia's. The NATO enlargement and the US-led bombing campaign of Yugoslavia in 1999 were perceived as demonstrating the failure of multipolarity of that mode and forced a rethinking of it. The re-established concept of multipolarity in Russian foreign policy denotes an approach built upon the system of arrangements among the Great Powers, developed upon coordination within the framework of international institutions to which Russia belongs, and influenced by the capabilities inherited from the USSR

[40] For the analysis of Russian foreign policy see works by Pavel Baev, Andrey Tsygankov, Dmitrii Trenin, Sergey Karaganov, Paradon Rangsimaporn, Jeffrey Mankoff, Tsuneo Akaha, etc.

(most importantly, the permanent seat in the UNSC, nuclear status, and membership in the OSCE).

As regards Russia's foreign energy policy, in its most general interpretation, multipolarity marks the shifting balance between Europeanism and Eurasianism. Because of understandable reasons (traditional well-established commercially beneficial energy ties, for one) Europeanism has long remained a dominant platform in Russia's energy policy.

Europe-oriented experts and politicians state that Russia's economic and technological backwardness neither permitt Russia to pursue a special way of development nor allow the country to fully benefit from its unique geopolitical position of a bridge between Europe and Asia. The proponents of Europeanism hold that to reach a level of economic development somewhat comparable to the West's, Russia needs to discontinue its traditional Great Power politics and concentrate on solving domestic economic problems. On the other hand, adherents of the Eurasian policy argue that since 1991 the geopolitical situation changed drastically literally challenging Russia's security at all fronts. Thus, Eurasianism embracing both the West (Euro-Atlantic) and the East (Asia-Pacific) stands to be the only policy mode to adequately tackle a vast array of lingering uncertainties and potential threats.

The competition between these two policy courses has never stopped; at different points in time one changed another. In the earlier post-Soviet period, the liberal ideas were especially attractive and the transition reforms were largely designed in accordance with the Westernizes' plans. When encountering increased tensions with the West and facing economic hardships, partly as a result of the former, the Eurasianism started gaining a stronger hold over policymaking. Within both streams, however, pragmatic considerations have become a major trend. It is largely precisely because of this pragmatic approach as well as due to an increased awareness of China's immensely strengthened status in every single area of international affairs that within Eurasianists camp a group of Sinophiles has formed. Despite the fact that positions of officials, politicians, and experts within these schools of thoughts are not perfectly homogeneous and still rather fluid, a somewhat general characterisation of the values and interests peculiar to each of them can be presented as follows (refer to Table 5).

Table 5 Westernizers and Sinophiles in Russian foreign policy.

Westernizes	Sinophiles
Ideologists (Nemtsov, Milov, Trenin) - Russia is a country with a Western identity and system of values; - Russia's political choice in addressing its principal economic and security problems should be with Europe and the US	Ideologists (Communist Party) - China's values enabled spectacular economic development and nationalist resistance to the West deserve respect
Pragmatists (Putin, Medvedev) - Russia should prioritise relations with the West based upon economic and political interests, rather than values; - West-centered global economy and importance of Western technology, but not Western-style democracy	Pragmatists (Primakov, Margelov, Sechin) - Russia's sovereignty and independence would be better protected by closer ties with China, rather than with the West

Source: retrieved from Tsygankov, Andrey (2009) What is China to us? Westrenizers and Sinophiles in Russian foreign policy. IFRI. Russia/ NIS Center. December.

There is a strong believe that Russia's pragmatic diplomacy will dominate the foreign policy making towards both the West and the East, but Asia will gain a more salient attention within this pragmatic course. Russia's policy in Asia will be "governed in the near to medium term mainly by the mix of "new security" issues, economic incentives, and modernization imperative that have come to the fore in the last half decade".41

The arrival of pragmatic thinking into contemporary Russia's foreign policy-making was galvanised by the extremely favourable external conjuncture of oil, gas, and other raw materials markets: "Russia's foreign policy has … seen its successes in meeting the objective of economic development. The Kremlin's strategy of capitalizing on the country's energy reserves added revenue without alienating potential foreign investors. Russia's per-capita GDP has quadrupled… and about 20 million people have been lifted out of poverty".42 Export windfalls brought incredibly large amounts of currency into Russian coffers and made the government believe that Russia's economic strength (all too precarious as the 2008 crisis testified) should be matched adequately by the country's stature in global affairs. An accent on the economic factors as a necessary prerequisite for the build-up of national power became particularly evident during the second term of Putin's presidency. 43

In the wake of the 2008 financial crisis and steep fall in oil prices, the economic component has become even more important in president Medvedev's agenda. That is

41 Wolhlforth, William C. (2008) Defying expectations: Russia's missing Asian revisionism in The United States and Northeast Asia. Debates, Issues, and New Order/ Ed. By G.John Ikenberry and Chung-in Moon. Rowman and Littlefield Publshers, Inc. p.17.
42 Tsygankov, Andrei (2009) Does Russia Have a Grand Strategy?//International Studies Association, New York, February 13-16. p. 25.
43 Putin, Vladimir (2006) Vstupiteljnoe slovo na zasedanii Soveta Bezopasnosti, posvyachyonnom meram po realizatsii Poslaniya Federaljnomu Sobraniyu. June 20 <http://www.kremlin.ru>

explicitly indicated in the Long Term Concept for Social and Economic Development of the Russian Federation until 2020, highlighted by President Medvedev in his article "Go, Russia!", and emphasized in his 2009 Presidential Address to the Federal Assembly of the Russian Federation.44 President Medvedev's all-embracing modernization manifesto defines a course towards the improvements at all – economic, technological, political, etc. – facets.

Set against this pragmatic (some pundits call it 'neomercantilist'45) platform, and "[c]ontrary to the claims about anti-Western and imperialist nature of Russia's foreign policy, the Kremlin's objectives are mainly driven by domestic considerations. These objectives include securing geographic borders, improving political and economic conditions, and gaining international recognition as a power with an important voice in international affairs. The Kremlin seeks to be guided by a vision that is suitable to Russia and not unacceptable to the West."46

Again, albeit energy is often referred to as Russia's trump card in foreign policy, use of which is necessarily tainted by coercion and blackmailing, this seems to be a somewhat narrow interpretation. In effect, there has always been an understanding (or, recalling Putin's dissertation47, could well be even a plan) that energy factor is one of the elements of Russia's 'economic card'. Even a cursory perusal of Putin's thesis helps identify some elements48 that can be perceived as a draft script for Russia`s future energy policy. In hindsight, it appears that upon entering the political stratosphere - as Prime Minister, President, and Prime Minister again - Putin has been rather closely following his early arrangement. Throughout the 2000s, the Russian energy policy was developed upon the following postulates: being a country blessed by various natural resources endowments, Russia possesses a certain power, which can be utilised to strengthen the nation`s posture in the global arena; and the government must ensure the rational use of resources by a combination of market self-regulative mechanisms and measures for energy governance.49 In turn, economic strength boosted at the expense of the development of the natural resources` sector will further

44 Long Term Concept for Social and Economic Development of the Russian Federation (2008); Medvedev, Dmitry (2009), "Go, Russia!", September 10 <http://74.125.77.132/search?q=cache:mYsxBNxlWRgJ:eng.kremlin.ru/speeches/2009/09/10/1534_type104017_221527.shtml+go+russia+medvedev+article&cd=1&hl=en&ct=clnk>; Presidential Address to the Federal Assembly of the Russian Federation. November 12, 2009 <http://eng.kremlin.ru/speeches/2009/11/12/1321_type70029type82912_222702.shtml>

45 Ziegler, Charles (2009) Russia and Asia in the 21st century: The energy dimension// International Studies Association, New York, February

46 Tsygankov (2009), p. 7.

47 Seeking a Candidate of Sciences degree in economics with specialization on National economy planning and management, defended at the Saint Petersburg Mining Institute in 1997.

48 Translated into English excerpts are available at Balzer, Harley (2006) Vladimir Putin's Academic Writings and Russian Natural Resource Policy// Problems of Post-Communism. 53.1. pp. 48-54; also see: Balzer, Harley (2005) The Putin Thesis and Russian Energy Policy// Post-Soviet Affairs. 21.3. pp. 210-225.

49 Resorting to such methods as nationalisation, organisation of financial-industrial groups, etc.

reinforce Russia`s political and geo-political clout. Looking back at the major developments in Russian energy sector throughout the past decade, a persuasive illustration appears that what seemed to be an inter pares scientific paper turned out to be a roadmap not only for a certain industry - but given its magnitude - for the entire economy and even beyond, embracing the realms of foreign energy policy, and foreign policy at large.

Energy Strategy 2030 and Foreign Energy Policy

In the circumstances of a dramatic change on the global energy market, the Russian Government was forced to expedite a revision of the Energy Strategy of the Russian Federation until 2030 (hereafter, Strategy), and eventually adopted this document on November 13, 2009.

The new document should not be viewed as merely replacing the Strategy 2020 in response to a drastically changed situation. The government emphasizes the new Strategy's qualitatively new approach whereby the objectives for the national energy sector development are set as pivotal parameters and the means to achieve them put forward accordingly.

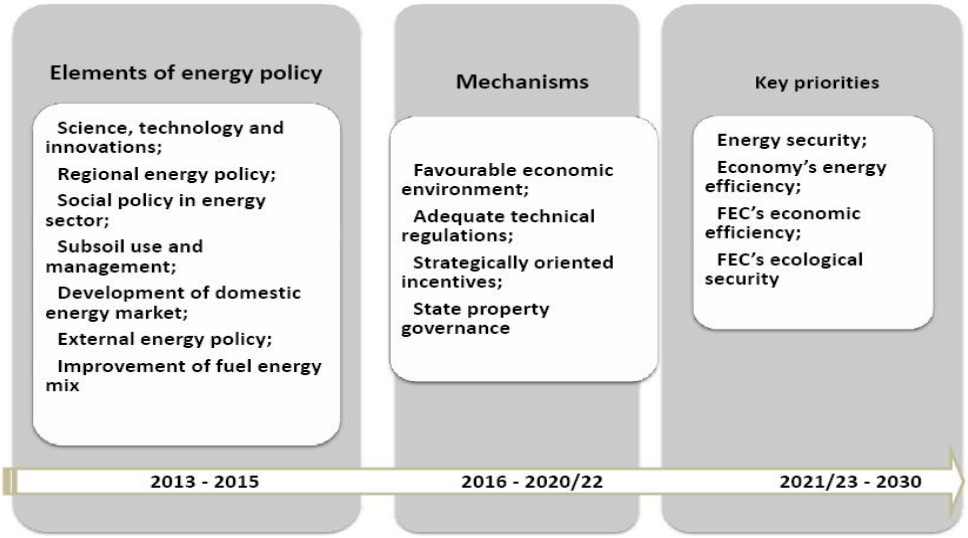
The new Strategy is built upon an assumption that it is the national FEC itself that crucially defines its own forward trajectory and shapes the trends within the entire economy. The formerly employed pattern has routinely posited the FEC as a system fairly subordinate to external conditions. Consequently, the target-setting process and the policy-making per se reflected the significance of the global energy market parameters and an immediate correlation between its indicators (first and foremost, oil price) and the national energy sector's dynamics.

This time around, it is not the world oil price but the tempo of post-crisis economic recovery that has been set as the point of departure for the Strategy's two scenarios. The first scenario envisages a quickly recovering national economy with the consequences of the downturn tackled before 2015. In turn, the second scenario envisions a slower pace to overcoming the upshots of the crisis, with full recovery expected by 2020/2022.

The Strategy outlines three phases, though the end of one and the beginning of the consecutive stage are not firmly scheduled. The timeframe is stipulated by whether or

not the concrete parameters on the FEC development have been achieved. Logically enough, the Strategy sees a substantial overhaul of the FEC during the first stage (*2013–2015*) as an additional engine pushing the entire domestic economy towards post-crisis recovery. During the second phase (*2016–2020/2022*), an array of cutting-edge, highly efficient innovations and technologies will be introduced; greenfields will become operational and significantly expand the sector's production and export capacity. In the period of *2021/2023–2030*, considerably improved energy efficiency coupled with enhanced use of non-fuel energy sources (nuclear, solar, wind, etc.) are expected to boost Russia's robust economic dynamism (refer to Graph 2).

Graph 2 Russia's Energy Strategy until 2030.



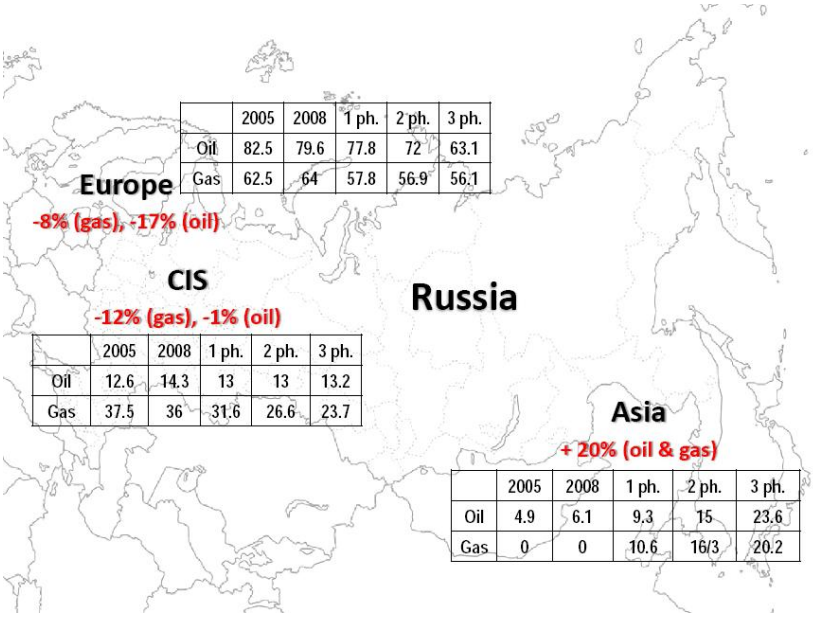
Source: composed by the author.

The Strategy pursues an array of aims across four major dimensions: energy security, energy efficiency of domestic economy, economic efficiency of FEC, and ecological security of FEC.

On the diversification of the energy development and export, it is worth noting that the approved Strategy saliently identifies new geographical dimensions for Russia's energy activity. More specifically, it envisages an accelerated development of new oil and gas deposits in East Siberia, the Far East, the Yamal peninsula, and the Arctic shelf. Accordingly, export flows are expected to follow this logic, switching more towards the East. The Asian share of exported oil is set to grow from the current 6 per cent to 20–25 per cent, and Asia is projected to hold around 20 per cent in Russia's gas exports (chiefly, at the expense of LNG). An elementary calculation tells us that an

increase in the eastern dimension will be offset by a corresponding decline in the west's share (refer to Map 2).

Map 2 Shifts in geographical structure of Russian oil and gas exports, %.



	2005	2008	1 ph.	2 ph.	3 ph.
Oil	82.5	79.6	77.8	72	63.1
Gas	62.5	64	57.8	56.9	56.1

	2005	2008	1 ph.	2 ph.	3 ph.
Oil	12.6	14.3	13	13	13.2
Gas	37.5	36	31.6	26.6	23.7

	2005	2008	1 ph.	2 ph.	3 ph.
Oil	4.9	6.1	9.3	15	23.6
Gas	0	0	10.6	16/3	20.2

Source: composed by the author based on the Strategy 2030 data.

Reflecting the shifts in production and export, the Strategy lists the top priority energy transport infrastructure projects as follows: the ESPO oil pipeline; Baltic Pipeline System-II; Burgas – Alexandroupolis oil pipeline; Nord Stream; South Stream; and the Caspian gas pipeline**.** It is worth noting though that these shifts in the national energy geography have not been masterminded by Russia alone. A series of transit conflicts causing huge commercial losses to Russia – more directly and severely for Gazprom – as well as a not always constructive dialogue with Russia's key energy consumers in Europe, together with other issues have prompted this major re-orientation. It now remains to be seen if and in what particular fashion Russia would benefit from such transformation.

As regards the foreign energy policy provisions, the strategic aim is formulated as to make the most efficient use of Russia's energy potential for the purposes of the country's comprehensive integration into the world energy market, strengthening its

clout in energy affairs and maximising its economic benefits.[50] For this end, the document reads, Russia has to adequately represent its interests through the avenues of cooperation within the CIS, the EurAsEC, NEA, the SCO, the EU,[51] and other states and international organizations; as well as through the means of coordination of its energy policy with the OPEC and the GECF; and acceleration of formation of the united Europe-Russia-Asia energy space.[52]

Other entries on Russia's external energy policy agenda formulate the principal dimensions of the Russian foreign energy policy as follows:

- representation of Russia's national interests in the regulatory frameworks (development of internationally acceptable concept which allows for the balance of interests of exporters, importers and transiters and defends against volatility and short-term speculative factors; assurance of transit security and insurance against transit risks; development of regulatory frameworks within international organisations; collaboration on bi- and multilateral norms on access to energy infrastructure and downstream sector; harmonisation of national and international regulatory systems; legal settlement of territorial disputes in the Arctic, the Caspian Sea and the South China Sea, etc.);

- geographical diversification of energy exports (expansion towards Asia while maintaining share in the European markets; enhancement of energy production and infrastructure; participation in regional energy alliances; expansion of access to the overseas energy infrastructure – ports, super tankers, etc.);

- structural diversification of exports (LNG, various value-added petro- and gas chemical products; etc.);

- assurance of stability of demand and prices in export markets (improvement of long-term oriented transit relations; access to transit infrastructure; development of spot trading with growing role of rouble; promotion of new Russian oil blends; improvement of pricing policy; 53 development of system of forecasting

[50] Doklad Ministra energetiki RF S.Shmatko na zasedanii Praviteljstva Rossii 27.08.2009 po rassmotreniyu proekta Energeticheskoi Strategii Rossii na period do 2030 goda (Energy Ministry's Presentation on Russia's Energy Strategy until 2030 at the Government meeting on August 27, 2009)// [http://minenergo.gov.ru/press/doklady/1420.html]
[51] Listed in the order of the original document. Refer to [http://minenergo.gov.ru/press/doklady/1420.html]
[52] Provisions relating to Russia's external energy policy were not highly appraised by Prime Minister Putin, who has characterized the Strategy as "not ambitious enough" pointing out that the document addresses too scantily Russia's standing in the global energy affairs.
[53] For more detailed official view on trade in oil, role of rouble and pricing see: Speech by Minister of Energy RF Sergei Shmatko at International Conference on Oil. Moscow. 27.10.2009 <http://minenergo.gov.ru/press/doklady/2190.html?sphrase_id=7238>

and analysis of the international energy markets; data and information sharing; technological and technical cooperation; etc.);

- promotion of the Russian energy companies' overseas activity (intergovernmental agreements; backing of Russian companies' operations in the EU, NEA and South Asia, Middle East, Central Asia and Latin America; Russian and foreign energy companies cross-ownership; Russian energies companies' multifaceted cooperation with TNCs; development of joint businesses down the value-added chain; etc.);

- establishment of favourable environment for international cooperation in technically challenged and high-risky energy projects in Russia, including the Arctic and shelf projects; etc.

Besides the Strategy 2030, Russia's foreign energy policy is informed by various domestically-oriented program documents, such as the concept on social and economic development, sectoral programs (for power sector, for gas industry, etc.), programs for regional development (on the Far East and Transbaikal region, etc.), and supported by the companies' programs (Gazprom's Vostok 50, etc.).

1.3 Policy Levers

Speaking of the external setting, in a stark contrast to OPEC members, Russia's margin of manoeuvre is objectively narrowed as Russia is not a swing producer but a price follower.[54] Furthermore, other factors (such, for instance, as a membership (or rather non-) in the institutions of global energy governance, or that particular role which the hard infrastructure plays in Russia's external energy ties) effectively deprive Russia of the ability to conduct an assertive energy policy. In effect, Russia's foreign energy policy has always been influenced by the domestic system of resource management.

Russia's economic success throughout pre-crisis years, was largely fuelled by oil and gas rents. The sector generated approximately 30 per cent of GDP, or about 50 per cent of budget revenues, and earned over 70 per cent of the country's foreign currency.[55] Russia has enjoyed robust growth of around 7 per cent annually; attracted a considerable amount of foreign investment; accumulated unprecedentedly large

[54] Tabata, Shinichiro (2009) The Influence of High Oil Prices on the Russian Economy: A Comparison with Saudi Arabia// Eurasian Geography and Economics. 50, No. 1, pp. 75–92.
[55] Export revenues have immensely contributed to Russia's gold and foreign exchange reserves, making them the world's third largest in 2008.

foreign-exchange reserves; run significant budget surpluses; the rouble had become a stable currency, steadily appreciating against the dollar; and the population could enjoy a remarkable rise in living standards.

Over the years of oil bonanza, flooded with export windfalls Russia had been widely perceived as yet another illustration of economy that was likely to fall a victim to the resource curse or, specifically, the Dutch Disease (DD). Amidst polarized opinions, a somewhat conciliatory stream has been formed. Nevertheless, a number of studies argued that in case of Russia, set of the economy's specific traits does not allow a straightforward conclusion whether or not Russia experienced the DD syndrome.[56]

The pendulum of economic fortune has swung away from Russia in step with the global economic crisis. Following collapse of oil prices and amid global recession, Russian oil and gas production and exports declined thereby adding to economic downturn. In 2009, Russian economy contracted by 9.4 per cent with industrial production declined by 10.8 per cent, export slumped by 35.8 per cent, import dropped by 34.4 per cent, and FDI toppled by 50.1 per cent.[57] In the wake of 2008 crisis, the government became particularly concerned with the ways to back up the energy sector. In such circumstances, it started amending the taxation and customs policy, as well as considering incentives to activate investment (including of foreign origin) into long-term large scale and risky projects.

Normally, the government has three types of policy tools at its disposal – administrative (of direct influence and control), legislative and economic (of soft governing power). All three are at use, and the balance among them shifts over time depending on the priorities the national government sets. The following sections provide more detail on this.

Decisionmaking

Normally, the very attempt to formulate such questions as who is a decision-maker on the matters of state governance and how a decision-making process is organised appears bizarre. Russia's reality is that these aspects should be well understood even if the state governance per se is not the focus of a given study. As regards Russia,

[56] See, for instance, Vinhas de Souza, Lúcio (2008) A different country: Russia`s economic resurgence. Center for European Policy Studies, Brussels; also Tabata (2008) (in Ellman et al.), Oomes and Kalcheva (2007), Bradshow (2006).
[57] Data are retrieved from the Central Bank of the Russian Federation, <http://www.cbr.ru>, Federal State Statistics Service of Russia, <http://www.gks.ru/>, and Institute for Complex Strategic Studies, <http://www.icss.ac.ru/macro/>.

both questions are, first of all, relevant and, second, are not as easy to answer, especially having framed them into the post-2008 period.

Focusing on foreign policy, according to the Russian Constitution, it is the area of the President's responsibility. He defines "the basic domestic and foreign policy guidelines" (Article 80.3), decides on foreign policy (Article 86) and is the commander-in-chief. On the other hand, according to the Constitution, the Prime Minister is responsible for the "implementation of foreign policy of the Russian Federation" (Article 114.1). This means that the Prime Minister cannot contradict foreign policy as defined by the President without the consent of the Foreign Minister. In reality, any pundit on Russian studies can confirm, the division of power is much more complex. As an outstanding expert on Russia's foreign policy Robert Legvold has recently pointed out [58] at a serious problem when, for instance, an American official has no an equally influential in terms of power capacity counterpart in Russia. Legvold's remark was particularly on the Lavrov – Clinton cooperation. Some observers point at a similar situation at the top level of the state power.[59] As Russia's envoy to NATO Dmitrii Rogozin commented "Medvedev sincerely believes that Obama can be trusted…But that does not mean this opinion is shared at every level, especially the levels where the implementation of their agreements is borne out."[60] This disconnection between what President Medvedev decides and agrees about and what is implemented – because of the ratification by Duma's vote where the United Russia dominates – is indeed an awkward reality of the contemporary Russian foreign policy making.

On a more general note, Viacheslav Morozov, professor at the St. Petersburg State University, says "... Russian government … can hardly be described as a unitary actor with a solid and coherent agenda. The cabinet, as well as some of the key ministries, are divided into liberals and proponents of economic nationalism, and the whole history of Russian reforms, including the most recent ones, abounds with contradictory steps and declarations."[61]

To understand the prime cause of such situation, it should be borne in mind that decision-making at the federal level involves such aspects as leveraging support from

[58] Conference "How Russia Decides: Actors, Processes and Critical Moments in Russia's Encounter with Globalisation" Norwegian Institute of Foreign Affairs (NUPI). Oslo, Norway. November 2, 2009.
[59] For instance, there is a sentiment that President Obama attempts to build up a closer contact with President Medvedev avoiding omnipresent Prime Minister Putin's involvement.
[60] Time, March 16, 2010 <http://www.time.com/time/world/article/0,8599,1971651,00.html#ixzz0lr2GBkKw>
[61] Morozov, Viacheslav (2005) Russia's role in a new Europe: The Russian - EU Energy Dialogue. p. 10 <https://kb.osu.edu/dspace/bitstream/1811/30222/6/MorozovPaper.pdf>

and balancing between the conflicting interests of several influential groups formed among the political elite. An apparent division of power along 'the President – the Prime Minister' line in contemporary Russian politics is further complicated by the existence of factions from both sides and contention between them. Albeit it is rather questionable to what extent the existing classifications[62] of the power groupings can be scientifically acceptable, the approach per se appears helpful in identifying the major actors and spheres of their interests.

As one competent on-line edition on Russian energy describes the Kremlin setting, there are two *chekists*[63] groupings within Sechin's coalition: by Sechin (Bortnikov, Ustinov, Fradkov) and by Ivanov-Patrushev (Gryzlov, Nurgaliev). The latter can also be seen as comprising two wings: by Viktor Ivanov and Patrushev (uniting those from the Karelia region). Medvedev's coalition is composed by *piterskie yuristy* (Petersburg's jurists) and *piterskie ekonomisty* (Petersburg's economists). The former is the group most loyal to the president (and anti-Sechin), which is formed by Chuichenko, Anton Ivanov, Vinnichenko, and Konovalov. The latter group formed by Chubais, Kudrin, Ignatiev, and Gref supports Medvedev, but while opposing Sechin remain interested in securing Putin at his post. The chekists grouping led by Cherkesov is at Medvedev's side. A remnant fraction of formerly influential *semiya* (family)[64] grouping, headed by Voloshin's include Abramovich, Shuvalov, and Timakova, also supports Medvedev. Two other clientele (strictly vertically built) groupings led by Kovaljchukov – Yakunin and Surkov are pro-Putin.

The 2008 financial crisis somewhat increased the influence of *ekonomisty* (often also referred to as *liberals* or *technocrats*). Particularly active were Finance Minister Alexei Kudrin and First Deputy Prime Minister Igor Shuvalov arguing that Russia should use this opportunity to restructure its economy away from high dependence on raw commodities and energy export. Speaking of the areas of influence, nonetheless, the *ekonomisty's* power is largely limited to the control over the financial sector, while *Sechins* hold an actual grip over the industrial sector, and, first and foremost, over the state corporations. Deputy Prime Minister Sechin himself significantly influences decisionmaking with regard to the Russian energy sector at large and defines developments in the oil industry through chairing Rosneft's and Rosneftegas' boards of directors, overseeing domestic energy projects particularly in the eastern regions, and

[62] See, for instance: Shevtsova, Lilia (2007) Lost in Transition. The Yeltsin and Putin legacies. Carnegie Endowment for International Peace.
[63] Terminology by RusEnergy is preserved unchanged <http://rusenergy.com/ru/read/read.php?id=47949>
[64] Kroutikhin, Mikhail, Energy Policymaking in Russia: From Putin to Medvedev in Russian Energy Policy and Strategy// National Bureau of Asian Research. NBR Analysis. Vol. 19, # 2, July 2008. pp. 25-29.

supervising cooperation with the OPEC, Latin America (Venezuela, for instance), East Asia (first of all, China), and Central Asia.

One of the arrangements that enables direct state`s involvement in the industry is a system whereby the government introduces its representatives to the major's board of directors. In accordance with this practice, for example, in 2010 the federal government's officials were represented as follows[65]: Gazprom – First Deputy Prime Minister (chairman), Minister of Industry and Trade, Minister of Economic Development, Special Representative of President for International Cooperation; Rosneft - Deputy Prime Minister (chairman), Head of the Federal Agency for State Property Management; Transneft – Minister of Energy (chairman); Zarubezhneft - Minister of Energy (chairman); RZD – Deputy Prime Minister (chairman).

Albeit intended to match the overall course of market reforms, the state energy policy in 1990s suffered numerous failures originated in the continuation of the Soviet practices. In a sense, energy policy was built upon the perception that the energy sector has to maintain further a role of a donor for the entire economy. Such a conclusion can be drawn from analyzing the structure and content of the policy documents approved throughout 1990s -early 2000s.[66] The programming itself has continuously employed an approach whereby projections about the world oil price were set a key criteria for the planning process. Besides the fact that oil price forecasts were always well off the mark subsequently turning all further mid- and long-term quantitative projections incorrect, the strategic documents did not propose a coherent system of measures and adequate mechanisms for the governance of the sector. Another specific characteristic was an inception of state's active involvement with the energy sector through the assets' acquisition in privatization, as well as the practice of placement of the government officials at the top managerial positions within the energy corporations. Thus, the cohesion between the state and the energy business was entrenched and eventually became an impediment to a more profound sectoral reform as the new owners were naturally not willing to face possible challenges or uncertainties.

[65] Retrieved from the companies' web-sites.
[66] Before the Energy Strategy of the Russian Federation until 2030 (to be discussed in more detail further) was approved in 2009, the main documents were subsequently: Concept of Russian energy policy in new economic Conditions (1992), Main Provisions on Energy Strategy of Russia and Main Directions of Energy Policy and the Restructuring of the Fuel Energy Complex of the Russian Federation until 2010 (1995), Main Provisions on Energy Strategy of Russia until 2020 (2000), and Energy Strategy until 2020 (2003).

On the whole, the energy policy throughout 2003 is evaluated as rather fragmentary and inconsistent with the course of market reforms commenced in the yearly 1990s.[67] The goals formulated in the program documents had been poorly achieved, and were consequently dragged into the next paper on energy policy and again remained unattained.

Furthermore, the overall domestic political environment has changed to expose a greater power of the state. To give but few illustrations of that, from 2000 onwards the '*oligarchs*' were ousted from the media, then the institution of presidential representatives to the regions was introduced as a measure to curb the power of regional governors (whose own direct elections were also eliminated), in 2003 the oligarchs were pushed out of the State Duma through forcing out the liberal parties that they financed and which were the main conduit for their lobbying. Finally, the Yukos' ending has signalled an eventual advent of state capitalism with a correspondent expanded sphere of state entrepreneurship, established mechanisms of selective support for loyal state-oriented companies, punitive measures against the power-opposing entities and supported by federal power vertical.

Sector's Structure

In Russia, state-owned companies play an important role in all segments of the fuel energy complex: exploration, development, processing, transportation/ distribution, marketing, etc. To provide a general picture, the major companies are briefly characterised below.

As is known, the supply and export structures of Russia's FEC are inherited from the Soviet era. Following the demise of the USSR, new joint stock companies were established on the basis of the former ministries.

The largest gas monopoly, *Gazprom*, emerged after the restructurisation of the MinNefteGazStroi in 1989. After 1992, a Joint Stock Company Gazprom, was created and later privatised; the state lost a majority of shares holding 36 per cent of Gazprom. However, the privatisation did not lead to major sector restructuring, like the unbundling of oil companies. Also, in 1992, the Russian legislation defined Gazprom as a natural

[67] Miller, N.E. (2009) Gosuadrstvennaya energeticheskaya politika Rossii v kontekste postsovetskih preobrazovanii 1990-h gg.// Gosudarstvennoe upravlenie. Vypusk 18, Mart.

monopoly and on these grounds limited foreign participation within Gazprom to only 10 per cent.

In 2005, an important reform was accomplished: in exchange for 51 per cent control by the state, Gazprom opened up to foreign capital up to 49 per cent. At the same time, Gazprom increased its involvement in the oil sector receiving a loan to purchase the Russian oil company Sibneft. Gazprom's intent was that the gains in the oil sector would compensate for the losses from gas sales in the internal market (where the prices were and yet remain below export levels).

Rosneft was established in 1993 as a unitary enterprise on the basis of assets previously held by Rosneftegaz, the successor to the USSR's Ministry of Oil and Gas. During early 1990s almost all Russian local oil companies and refineries were extracted from Rosneft to form ten integrated companies (later their number was halved as a result of acquisitions). By September 29, 1995 Government's Resolution № 971 Rosneft transformed into an open joint stock company. Rosneft became a leading company after purchasing the assets of Yukos at state-run auctions.

Rosneft is primarily engaged in the exploration and production of hydrocarbons (in Western Siberia, Southern and Central Russia, Timan-Pechora, Eastern Siberia and the Far East), the production of petroleum products and petrochemicals, the marketing and overseas activity (in Kazakhstan, Algeria, China, etc). Rosneft has been included in the Russian Government's List of Strategic Enterprises and Organizations. The state holds 75.16 per cent in the company (through OJSC Rosneftegaz), while approximately 15 per cent of shares are in free-float.

The frame of the current study does not embrace the complex themes of rail[68] and marine transportation of Russian gas and oil to the external markets, as, given their scope, they deserve a separate scrutiny in its own right. Briefly, the rail transport, represented by Russian Railways (RZD), a 100 per cent state-owned monopoly, plays an exceptionally important role in Russia's oil exports to China. 2010 is to become the last year for the oil deliveries by the rail, as the ESPO's China-directed leg is to become operational. Meanwhile, RZD expands cooperation with the Far Eastern ports in various forms. A similar strategy is pursued in the west, where RZD has invested in the Ust Luga port, which upon the BTS II completion by the end of 2010 is to take on

[68] Rail transport plays exceptionally important role in Russia's oil exports to China. Russian Railways, RZD, a 100 per cent state-owned monopoly, runs the operations. 2010 is to be the last year for oil deliveries by rail, as the ESPO oil pipeline's spur to China will become operational.

the oil export volumes previously transited through the FSU territories. Besides, RZD is a stakeholder in Novorossiysk port and is currently enhancing cooperation with Murmansk port.

Yet much of what this study discusses is linked to pipeline transport. Indeed, trunk pipelines[69] play crucial role in Russia's gas and oil exports. Gas and oil segments, dominated by Gazprom and Transneft, respectively, are highly monopolised. Some domestic experts hold that "it is axiomatic that the state needs to maintain control over the main pipelines…" as it "…is the only mechanism of effective state regulation available today".[70] On the other hand, the fallouts of this system are clearly comprehended: the timing and direction of export routes affect the private companies' production targets and exploration choices.[71] Nonetheless, the number of privately-owned pipelines remains very scant; namely, by Lukoil (the under construction Kharjyaga – Varandei oil pipeline in Nenets Autonomous Area, and the stake in the CPC oil pipeline), Shell (the gas pipeline within Skhalin II), and TNK-BP (the gas pipeline in Kovykta).[72]

In 2006, the State Duma adopted a bill on gas export, which expanded Gazprom's export monopoly to non-pipe gas, such as LNG and condensate, and limited the private companies' activity in gas trading. Gazprom is reluctant to accept the spot trading and secondary short term markets for the capacities. In Gazprom's view, the capacity auctions are dangerous as they allow additional benefits for traders but do not have positive spillover on long-term investments in the capacity-building.

By the same token, Gazprom defends its interests in overseas energy infrastructure, especially in the states of the FSU, but also in the CEE countries - EU members. Speaking of the EU, in order to defend itself from market uncertainties, such as those originating from the capacity auction system, Gazprom pursues a strategy of gaining control over distribution networks in Europe, as this enables its operation in the markets bypassing the intermediate European companies. At the same time, the European Commission can use power of the Competition Law against Gazprom: being a monopoly inside its own country, Gazprom's participation on the distribution markets can be restricted due to the reciprocity principle. This principle has been integrated in

[69] For more detailed analysis see: Perchik, A.I. (2005) Pravovye problemy razvitiya truboprovodnogo transporta v Rossii// NeftGazPravo. No. 5.
[70] Energy and security: Toward a new foreign policy strategy (2005)/ Ed. by Jan Kalicki and David L.Goldwyn: Woodrow Wilson Center, Washington, The John Hopkins University Press, Baltimore. p. 182.
[71] Nanay, Julia (2005) Russia and the Caspian Sea Region in Energy and security. p. 137.
[72] Kommersant. 2006. December 12.

the EU internal market Directives in order to make possible for the EU Member States to control an extent of market accessibility for the companies of those countries that did not liberalize their markets. This reciprocity clause effectively bars Gazprom from obtaining significant shares in the EU's distribution markets.

Transneft is a state-owned intermediary company specialising on transport services in oil exports. Albeit possessing the requisite resources, the company is not targeting at expansion abroad concentrating its activity on primarily export operations, and increasingly, in particular, in the Far East and Eastern Siberia, on pipeline construction. Apparently, it is owing to the company's monopolistic status[73] granting it all the benefits from transportation of Russian oil through the system of trunk pipelines across the entire country that Transneft is almost disinterested in outward expansion.

With regard to exploration, in the circumstances of falling or levelled off output in the gas and oil sectors, the state became concerned with the speed depleting fields are being replaced with new discoveries. It is against such a backdrop that the government is set about bringing more control into geological exploration and the reorganisation of geophysics is eyed as one of such essential steps. A new company, with a preliminary name Geologiya, is to be formed on the basis of the state-owned company Rosneftegaz with 11 other geophysical organizations (only one of which is state-owned) to be embraced. According to RosBusinessConsulting, Geologia would be established as a business unit of entities somehow subordinated to the Ministry of Energy. Another company Rosgeologiya will unite 49 state-owned enterprises, which have more strong relations with the Ministry of Nature.

Such consolidation stands to transform the domestic geophysics organizationally into a pattern structurally similar to the national gas and oil industries. The makeover is sought to significantly expand the volume of geological exploration and improve its efficiency. Albeit in the past few years the volumes of replacement measured in physical terms somewhat recovered exceeding the numbers for resources extracted,[74] the scale of the exploratory work needed is immense. According to Minister of Natural

[73] There is only one privately owned oil pipeline – Caspian oil pipeline linking Tengiz field in Kazakhstan and Novorossiysk. Also, Lukoil announced its plan to build a pipeline from Kharyaga oil deposit to Varandey terminal located in the Nenets autonomous area. The 160 km pipeline is expected to increase the volume of oil export not controlled by the Russian government by 4.5 mln t; its capacity is 8 mln t/y. Refer to: Lukoil to build its own oil pipeline <http://www.barentsobserver.com/lukoil-to-build-its-own-oil-pipeline.4629416-116321.html>
[74] For instance, in 2009 gas production totalled to 582 bn cm, while this year's exploration added reserves of some 650 bn cm.

Resources and Ecology, off-shore exploration alone requires some 9.3-9.47 tn roubles to be spent throughout 2039.[75]

Thus, state-owned companies are the principal actors in the Russian oil and gas sector. By their traits, Russian Rosneft and Gazprom can be categorised within the class known as NOC. [76] The NOCs' overall impact is controversial because under the system of the state ownership and control over the NOCs, oil and gas are practically treated as strategic commodities. Also, owing to governmental protection, competition in industry is limited allowing the survival of NOCs despite their extremely low economic efficiency. Additionally, due to the specific managerial practice of the NOCs, the overall level of transparency and accountability in the sector tends to be imperfect. It is true that domestically Russian NOCs carry out extensive non-commercial obligations, such as job creation, social infrastructure projects, priorities of regional development, various government direct requirements, etc. However, at the end of the day, this further impairs the NOCs' efficiency and at the same time detracts the resources which otherwise would be allocated more rationally.

Externally, the NOCs play an important role as a conduit for the state policy beyond the national borders. The bottom line is that being always connected to certain political actors[77] the NOCs are not necessarily guided by their own commercial considerations. The NOCs are entrusted by the government with certain assignments, and being backed by the government in one or another form of energy diplomacy, financial stimuli, administrative incentives, etc. they demonstrate loyalty to the government.

In hindsight, the privatisation of the 1990s was replaced by re-nationalisation, most plainly since 2004 onwards. The latter was arguably an interim phase helping change the owners. Nowadays, the contrary process (i.e., re-privatisation) is being deliberated. If this happens, the structure of the national oil and gas sector would become very different from what it looks now. However, while such did not happen yet, the state companies continue to enjoy rather lucrative deals and various privileges.

[75] RusEnergy. January 28, 2010.
[76] Governing Global Oil in the 21st Century: Trends, Challenges and Policy Implications for the Transatlantic Alliance (2009). Conference Report. Bolger Center, Potomac, MD 2 – 3 April <http://www.globalenergygovernance.net/fileadmin/gppi/TESD5_Conference_Report_final.pdf> p. 14
[77] Noreng, Oystein (1996) National oil companies and their government owners: The politics of interaction and control// The Journal of Energy and Development, 19 (2): 197-226.

Taxation

There is a broad range of taxation regimes such as royalties, revenue taxes, mineral extraction tax, and others, which are intended either to correct a problem or distortion in the energy markets or to achieve some social, economic, environmental or fiscal objective. In practice, taxation of energy is determined by the interests a government pursues. Analysing Russian energy tax policy from 2004 onwards, Gaddy and Ickes (2009) argue that "the high tax regime and increasing state control" were policy choices by Russia's leadership in order to manage "price risk exposure" and control "rent addiction": "By taxing the oil industry heavily and depositing the tax revenues in a sovereign wealth fund, the government hopes to keep Russia's rent addiction from running completely out of control." [78]

Russia has a three-tiered tax system: a corporate tax, a mineral extraction tax (MET), and the export duties on crude and products. The corporate tax is imposed on energy company's profit at a rate of 20 per cent (equal to that in other industries). MET was introduced in the 2002 tax reform, replacing the levies and taxes that were previously imposed on subsoil asset developers. In the oil sector, MET and export duties are linked to oil prices and the correlation is progressive: the higher price the higher levy. As for the gas, the MET is fixed and the export duty is defined in an *ad valorem* form.

A general note can be made that oil sector is under a heavier tax burden. As a result, from 1999 onwards, the oil sector has been generating a larger portion of budget revenues with the gap between oil and gas sectors contributions widening. In 2007, for instance, oil revenues were accounted at 14% of GDP, while gas revenues – 4.7 % of GDP. [79] Such taxation affects the economics of the oil business. According to some estimates in 2008, net profit of Russian oil companies' averaged at 10 per cent, while 90 per cent of their income was taken away, of which over 44 per cent through export duties. [80] The table below presents in more detail the cost structure for oil business in Russia.

[78] Gaddy et al. (2009), pp. 7-9, pp. 10-11 and p.12..
[79] Gurvich E., Vakulenko E., and Krivenko P. (2009) Tsiklicheskie svoistva byudjetnoi politiki v neftedobyvayuchih stranah.
[80] For detail analysis see: Alexeev Michael, and Conrad, Robert (2009) The Russian oil tax regime: A comparative perspective// Eurasian Geography and Economics. 50. No. 1. pp. 93-114.

Table 6 Russian integrated oil industry model, $/ b

	2005	2006	2007	2008	2009	2010E
Crude export EBITDA	**17.7**	**15.0**	**18.7**	**16.2**	**17.4**	**14.2**
Urals	50.8	61.3	69.6	94.6	61.3	70.0
Export duty	17.9	27.0	28.3	48.7	24.6	33.3
Transportation costs	2.6	2.9	3.7	4.6	4.4	5.2
All other export costs	2.1	1.9	1.9	2.4	1.4	1.7
MET	9.2	11.5	13.3	18.8	10.2	12.1
Lifting costs	1.4	3.0	3.7	4.0	3.2	3.6
Downstream EBITDA	**22.6**	**27.8**	**31.0**	**37.8**	**25.0**	**30.6**
Gross product value	50.3	61.0	67.5	87.3	58.4	68.7
Export duties and excise taxes	9.1	12.2	12.8	18.6	11.0	13.3
Transportation and distribution costs	5.4	5.9	6.7	7.7	7.8	8.1
MET	9.2	11.5	13.3	18.8	10.2	12.1
Downstream cash operating costs	4.0	3.5	3.6	4.3	4.5	4.6
Blended EBITDA of an integrated oil company	**17.1**	**18.3**	**21.3**	**22.5**	**17.4**	**18.0**
Upstream and downstream EBITDA	20.2	21.4	24.9	27.0	21.2	22.4
SG&A	2.7	2.8	3.3	4.0	3.4	3.9
Exploration costs	0.4	0.3	0.3	0.5	0.4	0.5

Source: Russia: Oil and gas. Troika Dialog. January 10, 2010. p. 22.

Note: EBITDA – earnings before interest, taxes, depreciation and amortization;

SG&A – selling, general and administrative expenses.

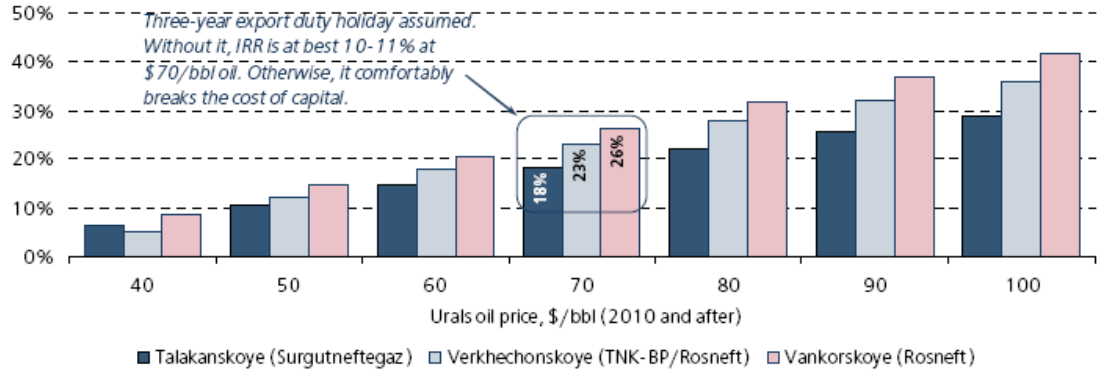
Having decided back in 2003 to stop issuing PSAs for the new projects, Russia has earned a reputation of one of the harshest oil tax regimes for the oil and gas sector in the world. In 2006 Russia pressured the Sakhalin II consortium prompting the foreign companies operating the project under the PSA to sell control of the project to Gazprom. Russia's motivation was to obtain an easier control over the costs, ensure more of the revenues from the project, and have a say in the project's export marketing strategy. Since then, however, the government has been acting in a more conciliatory way, as the slowdown in oil production growth over 2005–2007 was followed by an output decline in 2008. Starting from 2009, Russia has cut taxes in the oil sector seeking to stimulate investment in oil exploration and production. Oil taxation in Russia is traditionally based upon the volume of extraction as the major criterion for tax calculation. Currently, Russia is considering different taxation schemes, and a shift to profit-based taxation aimed at output stabilization is being examined.

The oil sector's production stagnation prompted the government to introduce some minor tax cuts, returning the industry to modest growth in 2009. Besides raising the taxable threshold according to which the MET was applied, the government took steps late in 2008 to modify its oil export tariff-setting system, reducing the lag time between when prices are monitored and when tariffs are adjusted (from two to one month period). The moderate success of these initiatives in resuscitating the sector in 2009 has spurred calls from the domestic oil industry for more tax breaks and incentives,

including a shift to profit-based taxation and a change in the methodology in determining oil export tariffs.

Launched in December 2009 tax exemptions on oil production and exports from Eastern Siberia[81] have helped provide incentives for producers operating in the region. Rosneft, Surgutneftegaz, and TNK-BP (refer to Graph 3) were highly satisfied with the tax breaks, but the Ministry of Finance (MoF) strongly opposed such a system noting that "East Siberian tax holidays" result in losses of budget revenues of some 120 bn roubles annually. Eventually, the regulations for 22 fields in the eastern provinces changed from July 1, 2010 (refer to Table 7).

Graph 3 IRR of major green oilfields in Eastern Siberia



Source: Russia: Oil and gas. Troika Dialog. January 10, 2010. p. 42.

Note: IRR – internal rate of return (denotes profitability of investments in a particular project).

Russia's approach to oil and gas sector taxation can be presented as follows (refer to Table 7). Above, mostly economically-centred incentives have been described, but as the table below depicts, other considerations than only economic ones also influence Russia's system of energy export regulation. While the overall setting for export duties exemptions for Ukraine and Belarus is different, the commonality is that they are executed upon heavily embedded political interests.[82]

[81] The scheme embraces 22 fields, including: Vankorskoe gas-oil deposit, Yurubcheno-Tokhomaskoe oil-gas condensate deposit, Talakanskoe (including Eastern bloc) oil-gas condensate deposit, Alinskoe gas-oil deposit, Srednebotuobinskoe oil-gas condensate deposit, Dulisminskoe oil-gas condensate deposit, Verkhnechonskoe oil-gas condensate deposit, Kuyumbinskoe oil-gas condensate deposit, Severo-Talaksnkoe oil deposit, Vostochno-Alinskoe oil deposit, Verkhnepeleduiskoe gas-condensate deposit, Pilyuduiskoe oil deposit, and Stanakhskoe oil-gas deposit, etc.

[82] For a more detailed analysis see respective section of Chapter 2.

Table 7 Main taxes in Russian oil and gas sector.

	Profit tax, %	MET	Export duties	Note
Gas	20	147 RB/ 1000 cm	30 % when Price <$333/ 1000cm, Tariff = 0, when Price≥$333/ 1000cm, Tariff = $100/ 1000cm	Planned 96% increase in MET in 2011 up to 288 RB / 1000 cm; **Ukraine:** exports duties exemptions for up to 30 bn cm in 2010 and up to 40 bn cm in 2011-2019 (April 21, 2010 agreement)[83]
Oil	20	419*(price - $15)* exchange rate/ 261*depletion ratio[84] (RB 2810.9 /t, as of December 2009)	when Price ≤109.5, Tariff = 0[85] when 109.5 < P ≤ 146, T = (P – 109.5) * 0.35 when 146 < P ≤ 182.5, T = 12.78 + (P - 146) * 0.45 when 182.5 < P, T = 29.2 + (P – 182.5) * 0.65 ($268.9 / t, as of April 2010) 0% for export up to 6.3 mn t/ y	MET and export duties exemptions for 22 oil fields in East Siberia (resource base for the ESPO pipeline) from December 2009. From July 2010, export duties on oil from 22 deposits (Vankorskoe by Rosneft, Talakanskoe by Surgutneftegaz, Verkhnechonskoe by TNK-BP are operational) will be applied as: when Price ≤$50/b, Tariff = 0 , when P>$50/b, T= (P –50)* 45/100; **Belarus:** export duties exemptions (Customs Union entered into effect January 1, 2010)

Source: composed by the author based on information on tax regulation retrieved from <http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=law;n=50642>.

On the whole, the export duties breaks improve the financial results of the companies concerned, but this government's stabilisation effort for the oil industry is undertaken at significant budgetary costs. Furthermore, there is a perception that export duties as such are inconsistent with the country's aspiration to further market reforms and the WTO accession. On the other hand, there is no single opinion on how the system should be transformed. The Ministry of Economic Development defends special taxation scheme for East Siberia, while MoF is resolved to re-institute taxes on producers in Eastern Siberia after 2010, and insists on the MET's increase. In turn, the Ministry of Energy proposes the introduction of a tax on additional income and an abolition of the MET.

Investment

It is upon these grounds that the nation possesses sovereignty over its natural resource,s[86] and oil and gas are common goods [87] which should benefit all the

[83] Resolution of the Government of the Russian Federation "On the rates of export customs duties on natural gas supplies from the territory of the Russian Federation on the territory of Ukraine" 30 April 2010 N 291 <http://www.rg.ru/2010/05/04/ukrgaz-dok.html>
[84] See: Guidance on MET calculation <http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=law;n=50642>.
[85] See: Law on Customs Tariff N 5003-1 <http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=88964;fld=134;dst=4294967295;from=73132-66>
[86] UN Resolution No. 1803 (XVII) (1962) Permanent Sovereignty over Natural Resources
[87] For more detail on types of goods (private, common, and public) in economics of natural resources see: Taxation along the Oil and Gas Supply Chain (2008) Energy Charter Secretariat. Brussels, Belgium. p. 13.

members of the domestic community, that the national governments of the carbon-rich countries often restrict the foreign companies' access to the sector of natural resources. In essence, foreign capital does not violate the sovereignty right. The crucial point here is to what extent the national government favours the foreign presence, and this in most of the instances is influenced by the internal economic situation: the less national financial resources are available domestically, the larger presence of foreign capital is allowed. This can be exemplified by the 1990s history of energy resources' development in Russia and Central Asia (e.g., Kazakhstan).

For the post-2008 Russia, energy investment is a matter of vital importance. Estimates on the investment needed in the Russian energy sector range significantly. In 2008, for instance, the Ministry of Energy estimated it at some $240 bn until 2020, while the IEA evaluated the need as up to $ 400 bn by 2030. The Strategy 2030 assessed the investment required for oil and gas industries as being of a much larger scale (refer to Table 8).

Table 8 Energy Strategy 2030's estimates on investment needed in gas and oil sector, $ bn.

Investment	Phase 1	Phase 2	Phase 3	Total until 2030
Gas: per phase, including:	150 - 155	131 - 136	284 - 299	565 - 590
production	45 - 46	43 - 45	98 - 103	186 - 194
transport	73 - 75	63 - 65	141 - 149	277 - 289
underground storage facilities, processing, etc.	32 - 34	25 - 26	45 - 47	103 - 107
Oil: per phase, including:	162 - 165	134 - 139	313 - 321	609 - 625
production	110 – 111	109 – 112	272 – 278	491 – 501
processing/ refining	21 - 22	8 - 9	18 - 19	47 - 50
transport	31 - 32	17 - 18	23 - 24	71 - 74
Total per phase	**312 - 320**	**265 - 275**	**597 - 620**	**1174 - 1215**

Source: Energy Strategy of the Russian Federation until 2030. Approved on November 13, 2009. Governmental Order No. 1715-p. p. 111, 112.

The Strategy envisages that the lion's share of investment – up to 80 per cent[88] – would come from the private sector. Importantly, the Russian government declared its intention to allow a more active FDI involvement. The Strategy targets a ratio of FDI to total direct investment of 5 per cent, 8 per cent, and 12 per cent by the end of each respective phase of the Strategy. At the same time, however, the Strategy 2030 sets a 50 per cent local component ratio as permanent bar for procurements. The reasons are understandable – strained by the economic downturn, the national machinery complex

[88] Zykov, Sergei, Nefti dobavyat ambitsii, *Rossiiskaya Gazeta*, N 4990, September 4 2009 <http://www.rg.ru/2009/09/04/energetika.html>

would certainly benefit from large-scale, long-term contracts. But yet again, quality, technical and technological parameters, as well as the cost of domestically manufactured equipment, materials and components may all turn this provision into a hurdle[89] rather than a trigger for the FEC's development.

In Russia, the attitude towards non-residents in the oil and gas sectors has changed several times – from a romantic period of product sharing agreements (PSA) and active invitation to the sector to a tough period of "resource nationalism" that *inter alia* resulted in a law forbidding foreign investment into Russian commercial organizations of 'strategic importance'.

Indeed, the period after 2004 has seen a tightening of the Russian state control and growing restrictions for the foreign capital in energy sector. The sector was strictly steered by the government via tax incentives, export regimes, pipeline access, oil and gas fields' auctions and tenders, etc. In July 2008, a number of amendments of the federal laws - On Continental Shelf, On Gas Supply, On Subsoil – has made the ever present 'green light' even 'greener' for large state-owned companies (expectedly, Gazprom and Rosneft became those 'assigned' by the government agents), while foreign businesses were put under tougher regulation. Russia has been severely criticized for this yet another act reinforcing resource nationalism.[90]

Additionally, the Strategic Sectors Law approved in 2008 lists 42 types of activity of strategic significance to the state setting forth that foreign investment in such areas should either be totally restricted or subject to approval on a case-by-case basis. The Law introduced the category of 'subsoil blocks of strategic significance',[91] and envisioned rather complicated licensing procedure by a number of agencies, such as the Federal Security Service (FSB), the Ministry of Defence, the Ministry of Economic Development, and the Ministry of Energy. Apparently, the Law has literally meant barring

[89] Consequences of similar regulations on the ratio of national work force employed and value of services and goods purchased for the PSA projects in Sakhalin laid down by the Federal Law on Production Sharing Agreements come to mind here.

[90] One illustration with no author's comment added seems to be worth of referring to in this regard. The US Treasury has recently published the rules to strengthen security reviews of foreign investments in US businesses. The regulations are intended to "strengthen the CFIUS [Committee on Foreign Investment in the United States, E.S.] process in a manner that reaffirms America's longstanding policy of openness to investment, consistent with the protection of our national security." The regulations clarify that transactions in which a foreign entity acquires less than a 10 percent stake in a US business are not automatically exempt from a CFIUS review. Under the new procedures, a foreign investor in a US business considered "critical infrastructure" is encouraged to consult with the CFIUS panel before filing a formal notice. This is a wise step in improving oversight of investments in critical infrastructure, resources, and financial systems on which our nation and our alliances depend". See: Cohen, Arial and Szaszdi, Lajos F. (2009) Russia's drive for global economic power: A challenge for the Obama Administration. January 30. Backgrounder N 2235. p. 3 <http://www.heritage.org/research/RussiaandEurasia/bg2235.cfm>

[91] To include: recoverable oil reserves ≥70 mn t; extractable gas reserves ≥ 50 bln cm; all subsoil blocks fully or partly situated in Russian inland seas, territorial waters and continental shelf; all subsoil blocks on defense and security-related land; all reserves of uranium, diamonds, nickel, cobalt, titanium, platinum and certain other minerals, as well as large reserves of gold (≥ 50 t) and copper (≥ 500,000 t); and onshore projects using defense/security land, as well as offshore or maritime projects, which are only open to Russian entities, with strict provisions on state ownership levels for offshore projects and limited foreign participation in onshore projects.

foreign investors from strategic deposits and further fortified oil and gas sector from foreign 'invasion'.

With the 2009 financial crunch, a very unfavourable business environment impelled Russian energy companies to suspend or even terminate some of their development programs (refer to Table 9).

Table 9 Changes to the companies' investment programs, as of Q12009 (bn $).

Company	Investment stance	Expenditure	Remarks
Gazprom	Plan to reduce	19.4	February 2009: original investment plan reviewed
Rosneft	Maintain present level	-	January 2009: exploration activities at previous year's level
TNK-BP	Plan to reduce	3.0	February 2009: original investment plan ($3.3 bn) reviewed
Lukoil	Plan to reduce	6.5	February 2009: revised investment plan ($9.7 billion) re-reviewed

Source: composed on data from various sources.

The government had to handle a tremendously deteriorated financial situation in the oil and gas sector. Seeking the means to ensure the sector's development, the government has gradually softened its stance on the foreign capital engagement. The careful expectations of observes on this account have eventually received some support in February 2010 when at one of the governmental meetings it was announced that legislation on foreign investment is to be amended shortly. Not only the existing regulations on strategic industries are to be reduced, but a number of stimuli, such as, for instance, more favourable taxation and a larger recovery of expenses for geological exploration in case of discovery of a 'strategically significant' deposit, are being deliberated by the Russian government.[92]

As the incentive means to trigger the investment process, the government, as explained above, introduced flexible taxation on mineral resources extraction, on profit, as well as amendments to the export tariff. These recent initiatives stretch along project-specific or region-specific logic. To be concrete, as a measure of additional stimulus for the investment into the heavily government-backed the ESPO oil pipeline, the export duties on oil extracted from a number of deposits in East Siberia were wounded down. On the account of region-specific regulation, the government has lately proposed tax exemption for the extraction of natural resources, i.e. offshore deposits in the Black Sea (accumulated extraction capacity of up to 20 m t) and the Okhotsk Sea

[92] Zagranitsa sebe pomozjet// Kommersant. December 22, 2009 <http://www.kommersant.ru/doc.aspx?DocsID=1297068>

(30 m t) during the period of geological prospecting for up to ten years and during commercial exploitation for up to 15 years.

As of the time of the writing, it seems that persistent calls for the abolishment of restrictions on investment by foreign and privately owned Russian companies in 'strategic' hydrocarbon deposits and offshore blocks have finally been heard. The government appears to be following a more pragmatic line deliberating on the revision of the restrictive legislation for foreign capital, and making possible non-residents' participation in development projects first and foremost in the Arctic, East Siberia, and the Far East, in servicing business as well as in transportation of LNG and other hydrocarbons.

Tariff System

As discussed earlier, the Russian government exercises control over major pipelines on Russia's territory through decisive participation in corresponding organizations. Officially, the major oil, petroleum-product and gas pipelines have been privatized and belong to Transneft, Transnefteprodukt, Gazprom and their subsidiaries. In effect, the system of pipelines is a realm of 'natural monopolies' - state-owned and fully controlled by the state. Control is mainly executed through setting prices (tariffs) for transport services and distribution of rights for access to the pipeline system (including export facilities).

Trunk pipelines and railways enable the shipment of oil and gas both across the country and abroad. The first plays an exceptionally significant role in Russian oil and gas sector. When it comes to pipeline system, the major actors here are Transneft and Gazprom, while in the rail sector the main actor is RZD; all are so-called 'natural monopolies'. It is precisely because of this monopolistic nature that the state lays down the principles of the tariff policy. In the pipeline system, the Federal Tariff Service of the Russian Federation (FTS) is the only authority assigned with defining the tariff level for transporting of natural gas, crude oil, and petroleum products through oil and gas pipelines. The system of tariff regulation is designed in a two-tiered pattern comprising external (tariffs determined by the state, i.e., FTS) and internal (based on decisions adopted by the state representatives on the company' board of directors) control.

There is a variety of tariffs charged domestically.[93] But tariff and transit fee by no means are less crucial aspects of Russia's external energy ties. As the cases addressed in the following sections show – tariff and fee are subject to intergovernmental negotiations with a wide range of topics involved in the negotiation agenda.

Domestically, the economics of pipelines can also be affected by politically-motivated decisions. One of the most recent examples of the kind is the ESPO tariff. The pipeline was built upon the government's decision to move ahead with the implementation of Russia's Asian energy strategy. Objectively, exceptionally harsh geological and climatic conditions (mountains, rivers, tundra, permafrost, etc.) and almost non-existent supplementary infrastructure of any kind, resulted in the mammoth investment the ESPO construction absorbed. Furthermore, with the ESPO becoming (partially) operational, a sort of 'catch-22' situation with regard to the transportation fee appeared. The actual costs for operating the ESPO trunk evaluated by Transneft stood at about $130/t. That would certainly send the tariff to prohibiting heights for the producers. Eventually, the tariff was set at $50/t with the gap to be bridged through the mechanism of a 'network tariff rate', whereby all the users of Transneft's pipeline network - regardless of their area of operation - are compensating this difference (to Transneft as a monopoly and almost exclusive owner of Russia's oil pipeline system) by sharing evenly the burden.

Licensing

Through the mechanism of licensing, the government seeks to achieve several tasks, such as, to develop new oil and gas fields and maintain/increase production; to regulate the number agents and control their qualitative profile; to balance the geographical structure of energy resources development and production; and not the least, to receive a certain amount of revenue.

There are exploration and production licenses, which are awarded through either of two - tender or auction -mechanisms. A tender awards a license to that participant who submits the most technically competent, financially attractive and environmentally sound proposal that meets the published tender terms and conditions. The winner of an

[93] Exemplifying the oil sector, there are: tariff rate for services related to fulfillment of orders and oil dispatching to refineries located domestically and in the Customs Union (UC) member-states; rate for such services provided beyond Russia and UC; rate for pumping services; rate for shipment, loading/discharging, and receiving/delivering; agreed tariff rate; long-term tariff rate; competitive tariff rate; and network tariff rate. See: Shcherbanin, Yury (2009) Russia's crude oil pipelines and their tariff system// Northeast Asia Energy Focus. Winter. pp. 48-53.

auction is the participant that offers the highest amount of one-time (bonus) payment for the right to develop subsoil resources.

Upon discovery of oil, a production license is issued without a tender to a holder of an exploration license. Before a subsoil user may start the development of the deposit pursuant to its license, such subsoil user must obtain the approvals of the relevant authorities with respect to its deposit development plan and obtain a mining allotment. The subsoil licenses become effective upon their registration with the Federal Agency for Subsoil Use.

Since January 2005, tenders and auctions are conducted by the Federal Agency for Subsoil Use (or its regional department) which forms the tender or auction commissions for such purposes, while the representatives of the relevant regional authority are allowed to participate in such tender or auction commissions.

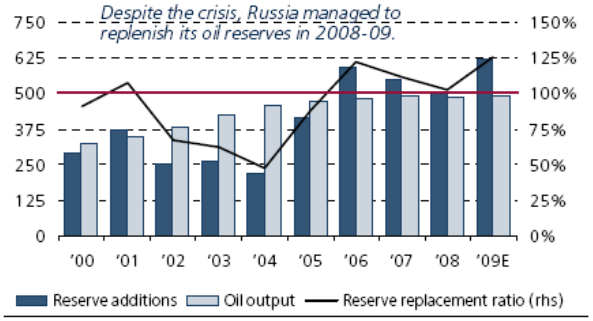
Initially, the subsoil use licensing authorities had a practice of organizing tenders for the award of licenses. This has changed, though, and throughout 2008 auctions became a more common means to award production and combined licenses. From late 2008 onwards, higher uncertainties and the companies' worsened financial capabilities have tremendously decreased an overall interest to obtaining subsoil licensees. That is to say, in 2009, 119 auctions and 5 tenders were announced, of which 80 and 0, respectively, were - more or less - successfully held. Auctions on the subsoil sites located in East Siberia and the Far East were of particular low success rate. More concretely, out of over 30 auctions announced only 10 were actually held.[94] As for other regions, relatively small deposits and fields located in undeveloped areas (with no infrastructure in site, etc.) traditionally attracted a very small number of participants.

Over the pre-crisis period, Russian oil and gas companies showed somewhat impressive reserve replacement rates (RRR). For instance, Novatek's RRR was 898 per cent, and Rosneft's – 163 per cent. This continues the trend set over the preceding five years, which saw an average RRR of 213 per cent for listed Russian oil companies, vs 72 per cent for the international super-majors. At the same time, Russian producers were able to replace their reserves at a low cost of $4.6/b over this period, vs an average of $21.5/b for the supermajors.

[94] Resursnaya baza: 'Slivki' konchilis// Neftegazovaya Vertikal. Vol. 5, 2010. pp. 40-52.

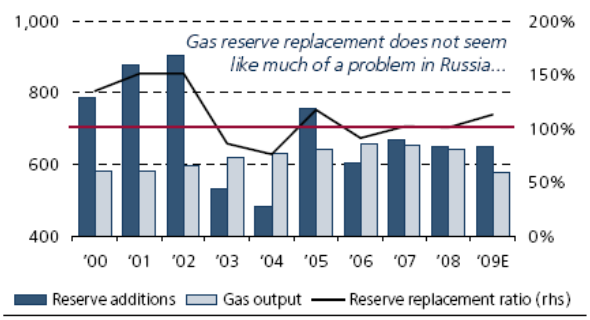
In 2009, the Ministry of Natural Resources reported that Russia added up to 620 mn t and 650 bn cm in oil and gas reserves, respectively (refer to Graphs 4 and 5).

Graph 4 Oil reserve replacement, mn t



Note: Oil reserves are given as explored reserves and are equivalent to ABC1 reserves under Russian geological standards.

Graph 5 Gas reserve replacement, bn cm



Note: Gas reserves are given as explored reserves and are equivalent to ABC1 reserves under Russian geological standards.

Source: Russia: Oil and gas. Troika Dialog. January 10, 2010. p.53.

However, this positive performance may well be attributed to the companies' activity in the pre-crisis period, while the 2009 results of licensing, as discussed, have indicated the companies' waning interest in building up their reserves. Under such circumstances, a specific method of the licenses' allocation – the direct transfer of licenses at a minimum price upon the Government's resolution [95] –was put into practice. Such, for instance, were the cases of licenses on geological exploration, development and production of the Sakhalin III blocks and West Kamchatka's shelf deposits[96] granted to Gazprom in 2009.[97]

On a general note, Russia's vertically-integrated energy majors seem not to be as much interested in paying lump sums for the rights on exploration and development of green fields (they have obtained vast territories which are yet waiting for the massive investment to be made), while independent energy companies often have no financial resources for bidding at the auctions, or relinquish applications foreseeing future problems with the access to the transport infrastructure (controlled by Gazprom and Transneft), not to mention other obstacles overcoming which is beyond their capacity. Meanwhile, it is observed if Russia does not undertake necessary and efficient steps, it will start losing its leading positions in the world energy market from 2015. As the Minister of Natural Resources Trutnev - known for his particularly tough criticism of the state-owned companies which are granted the licenses for offshore fields but drag their

[95] For instance, in 2008-2009, the government transferred a number of strategic fields directly to Gazprom, Rosneft, and Surgutneftegaz.
[96] More details are provided in the subsequent chapter.
[97] Governmental Regulation N787-P. 15 June 2009.

feet in implementing their obligations and yet again apply for the new licences[98] – emphasizes, with the current tempo of geological exploration and development preserved, another 150 years would be needed to achieve the targets of the Program for Development of Hydrocarbon Resources on the Shelf of the Russian Federation until 2030.

Summing up this section, it is correct to note that while developing its energy strategy and conducting foreign policy, Russia is mainly led by domestic concerns. This said, there is also a clear understanding in the government that only through being a part of the global system (through the energy channels as a reality of Russia's role in the system of international division of labour), Russia has chance to eventually overcome its economic weakness and secure itself a place in the matters of global scale.

1.4 Russia's Energy Profile

"[T]he resurgence of "statist" energy behaviour is not the product of a singular economic system. It is not even an indication of where a country stands in the new international energy order. It is, instead, a consequence of fundamental characteristics of energy in this demanding new era"

Michael T. Klare,
Rising powers, shrinking planet. The new geopolitics of energy.
– New York: Metropolitan Books Henry Holt and Company, 2008. pp. 25-26.

Resource Base: Reserves and Location

By its energy profile, Russia tops the world rankings (refer to Table 10). According to BP,[99] Russia possesses the 7th largest oil proven reserves (6.3 per cent of the world's) and occupies the 2nd place among the world's producers (12.4 per cent). Russia's gas proven reserves account for 23.4 per cent or the world's biggest, and its production share is some 19.6 per cent or the world's largest. In terms of oil and gas exports, Russia is the world's 2nd and the largest supplier, respectively.

[98] Rosneft i Gazprom poluchat poltora uchastka nedr bez konkursa. March 23, 2010 <http://finance.rambler.ru/news/economics/66104750.html>
[99] BP Statistical Review of World Energy, June 2009.

Table 10 Reserves, production and net exports of key oil and gas producers.

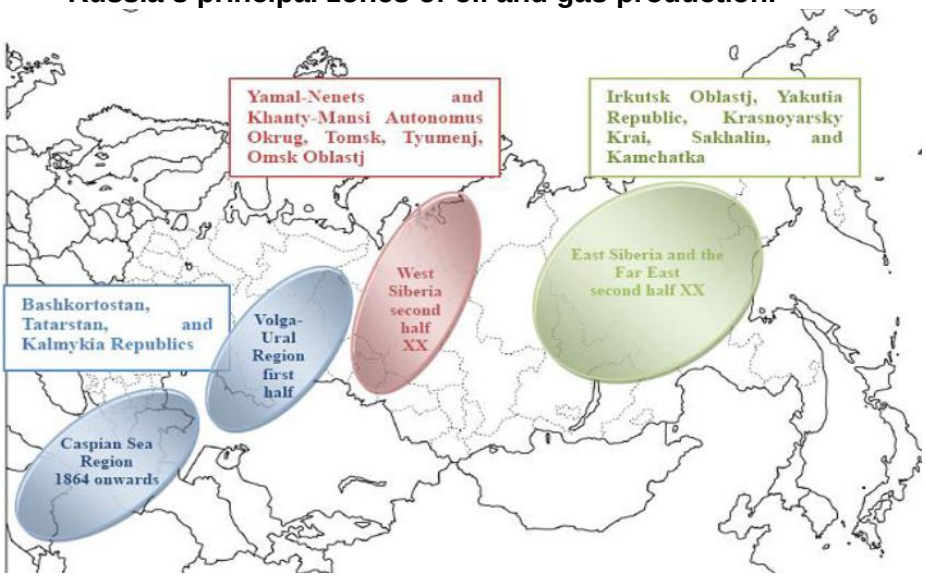
	Reserves, oil - bn b, gas - tn cm	Production, 1000's b/d, bn cm				Net exports, 1000's b/d, bln cm	
	2008	2008	Rank	2030	Rank	2008	Rank
Oil							
Saudi Arabia	264.1	10846	1	15600	1	8622	1
Iran	137.6	4325	4	5400	5	2595	3
Iraq	115.0	2423	12	6400	4	*	-
Kuwait	101.5	2784	9	3300	12	2484	5
Venezuela	99.4	2566	10	3600	9	1847	7
UAE	97.8	2980	8	3900	7	2513	4
Russia	***79.04***	***9886***	***2***	***9500***	***2***	***7089***	***2***
Libya	43.7	1846	17	2200	17	*	-
Kazakhstan	39.8	1554	17	4300	6	1325	9
Nigeria	36.2	2170	13	3700	8	*	-
US	30.5	6736	3	6500	3	-12683	-
Canada	28.6	3238	6	1900	16	943	12
Qatar	27.3	1378	18	2500	15	1274	10
China	15.5	3795	5	3500	10	-4204	-
Angola	13.5	1875	16	2600	14	*	-
Brazil	12.6	1899	15	3400	11	-498	-
Algeria	12.2	1993	14	2300	16	1682	8
Mexico	11.9	3157	7	3000	13	1118	11
Norway	7.5	2455	11	1300	18	2245	6
Gas							
Russia	***43.3***	***601.7***	***1***	***794***	***1***	***181.5***	***1***
Iran	29.61	116.3	4	313	3	-1.3	-
Qatar	25.46	76.6	8	169	4	56.8	5
Turkmenistan	7.94	66.1	13	-	-	47.1	6
Saudi Arabia	7.57	78.1	7	-	-	0	-
UAE	6.43	50.2	18	-	-	-7.9	13
US	6.73	582.2	2	515	2	-75	-
Nigeria	5.22	35	19	127	7	*	
Venezuela	4.84	31.5	24	70	11	-0.9	-
Algeria	4.5	86.5	6	142	6	61.1	4
Indonesia	3.18	69.7	10			31.7	8
Iraq	3.17	n/a	n/a	n/a	n/a	n/a	n/a
Norway	2.91	99.2	5	127	7	94.8	2
Australia	2.51	38.3	21	96	10	14.8	10
China	2.46	76.1	9	115	9	-4.6	14
Malaysia	2.39	62.5	14	-	-	31.8	7
Egypt	2.17	58.9	16	-	-	18	9
Kuwait	1.78	12.8	38	-	-	0	-
Canada	1.63	175.2	3	164	5	75.2	3
UK	0.34	69.6	11	10	12	-24.2	-

Source: composed from data BP Statistical Review of World Energy, June 2009 [http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/2009_downloads/statistical_review_of_world_energy_full_report_2009.pdf]; data for 2030 compiled from: Wicks, Malcolm, Energy Security: A national Challenge in a Changing World. August 2009. pp. 48-49 [http://www.decc.gov.uk/en/content/cms/what_we_do/change_energy/int_energy/security/security.aspx]

At present production levels, Russian oil reserves are sufficient for another 21 years, while gas reserves will last another 80 years. By the Energy Strategy 2030 estimates, by 2030 oil and gas production is expected to expand to 530 – 535 mn t and to 885 - 940 bn cm, respectively. However, a number of factors, such as investment in exploration and development of green fields and infrastructure, as well as trends in both domestic and external demand, will define the future dynamics.

The most prolific oil and gas provinces are located in Ural-Volga, Timan-Pechora, and Western Siberia (refer to Map 3).

Map 3 Russia's principal zones of oil and gas production.



Source: composed by the author

(blank map downloaded at
<http://english.freemap.jp/blankmap_dl.php?area=europe_e&country=russia&file_name=4.gif>)

The existing system of oil and gas export infrastructure is predetermined by the geography of resources and the historically established westward orientation of Russia's energy ties (refer to Map 4).

Map 4 Russia's oil and gas pipelines

Source: <http://www.eia.doe.gov/emeu/cabs/Russia/images/Russian%20Energy%20at%20a%20Glance%202007.pdf>

The data below (refer to Table 11) reflect that after the trunk pipelines connecting Russia's fields with Europe were built, there was a somewhat 'still' period. This did not necessarily signify the adequacy of the facilities then in place. Rather, it was a sign of tough situation both in the sector and in the Russian economy as a whole at that early transition period. By 2000s, there was a deficit of transport capacity, and the problem was rising in prominence on pace with the energy market recovery and growth. Albeit somewhat postponed by the 2008 crisis, none of the major projects have been eliminated, and the eastern part of Russia has even seen the pipeline construction activity of unprecedented scale.

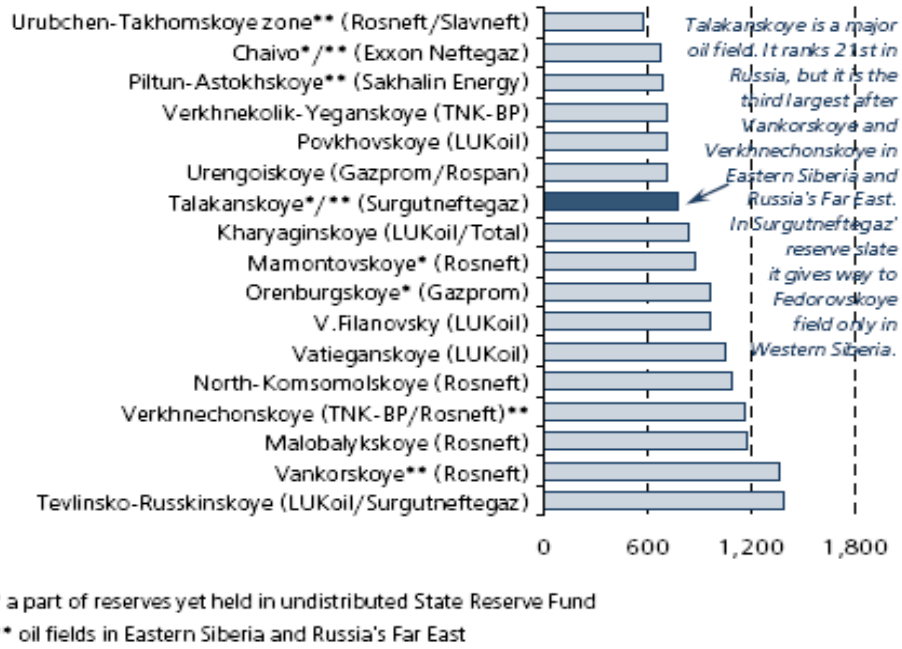
Table 11 Russia's existing and planned pipelines.

Gas		Oil	
Saratov-Moskva pipeline	1946	Grozny-Tuapse	1928
Northern Lights	1975-1994	Tikhoretsk-Tuapse	1962
Urengoy-Pomary-Uzhgorod	1983	Druzhba pipeline	1964
Yamal–Europe pipeline	1997	Uzen-Arytau-Samara	1971
Blue Stream	2003	Baku - Novorossiysk	1997
Bovanenkovo-Ukhta	2011	Baltic Pipeline System	2001
Nord Stream	2012	Caspian Pipeline Consortium	2004
Sakhalin–Khabarovsk–	2011	East Siberia - Pacific Ocean	2009 - 2012
Vladivostok	1960-1988; 2011-	Zapolyarje – Purpe - Samotlor	2012
Central Asia–Center	2012	Baltic Pipeline System II	2012
South Stream	2015		
Altai gas pipeline	2016		

Source: composed by the author.

The diversification of export routes has become possible because a swath of new production sites in Timano-Pechora, East Siberia and Sakhalin came on line. The new oil fields in Russia's East (refer to Graph 6) feed the ESPO pipeline and allow further expansion of oil deliveries to Asia Pacific by sea.

Graph 6 Reserves of Russia's largest oilfields, mn b



* a part of reserves yet held in undistributed State Reserve Fund

** oil fields in Eastern Siberia and Russia's Far East

Source: Russia: Oil and gas. Troika Dialog. January 10, 2010. p. 36.

The largest gas reserves, currently accounting for more than 60% of total Russian gas production, are concentrated in West Siberia (refer to Table 12).

Table 12 Russia's major gas fields, bn cm[100]

	Reserves, bln m^3		
	ABC1	C2	ABC1+C2
Gazprom			
Urengoiskoye	5,605	1,485	7,090
North-Urengoiskoye	521	107	628
Yamburgskoye	3,799	573	4,372
Zapolyarnoye	3,211	110	3,321
Bovanenkovskoye	4,375	549	4,924
Kharasaveiskoye	1,259	365	1,624
Medvezhye	514	37	551
South-Russkoye	736	204	940
Shtokmanovskoye	3,284	411	3,695
Astrakhanskoye	2,569	1,062	3,631
Orenburgskoye	802	62	864
Lunskoye	452	79	531
Kamennomyskoye	505	0	505
Kruzensternovskoye	965	710	1,675
North-Tambeiskoye	724	205	929
Utrenneye	483	284	767
Malyginskoye	440	306	746
Chayandinskoye	380	861	1,241
NOVATEK			
South-Tambeiskoye	1,004	224	1,228
Yurkharovskoye	360	360	720
LUKoil			
Central-Astrakhanskoye	18	1,238	1,256
Rosneft			
Kharampurskoye	774	165	939
Yurubchen-Takhomskoye	122	459	581
TNK-BP			
Kovyktinskoye	1,407	572	1,979
Petromir			
Angaro-Lenskoye	2	1,220	1,222
Undistributed reserve fund			
Leningradskoye	71	981	1,052
Rusanovskoye	240	539	779
Total	**34,622**	**13,168**	**47,790**
Gazprom's share	88%	56%	80%

Source: Russia: Oil and gas. Troika Dialog. January 10, 2010. p. 54.

It is an acute problem of Russian gas sector that that the most lucrative fields, such as Urengoiskoe, Yamburgskoe, and Zapolyarnoe, are depleting. In order to compensate for declining output and to meet contractual commitments, Russia is concerned with brining new upstream projects on-line. Yet, as most of the new fields are smaller than the depleting ones and in addition are located in the far north, the exploration and production costs are significantly higher.

Producers

Speaking of gas, Gazprom remains the largest producer, but seems to be slowly losing its foothold to the 'independent producers' (such as Novatek, and vertically integrated Lukoil, TNK-BP, Surgutneftegaz, etc.). Because of the independents' on average 10 per cent annual production growth throughout 2002-2007 (compared with Gazprom's modest 1.3 per cent), their share increased to some 14-16 per cent in the total gas

[100] The Russian reserves system is based solely on the analysis of geological attributes. Explored hydrocarbons' reserves are represented by categories A, B, and C1 (commercial); preliminary estimated reserves are represented by category C2 (prospective); potential resources are represented by category C3; and forecasted resources are represented by categories D1 and D2 (prognostic/ geologic).

output. In 2009, while Gazprom's production contracted by 36 per cent in June 2009 to June 2008, and 25 per cent in the first half of 2009 over the same period in 2008, the independents performed positively. Novatek, for instance, increased its output by 7 per cent, and 6 per cent, respectively. So did some oil producers: in January-November 2009 over the same period of 2008, Rosneft and TNK-BP, for example, augmented their gas output by 6 per cent and 9.8 per cent, respectively. As a result, in 2009 the non-Gazprom output accounted for over 20 per cent (refer to Table 14).

Table 13 Russia's gas production 2007-2009.

	2007	2008	2009	2009/2008, %
Russia total bn cm, including:	653.1	665.0	582.4	-12.4
Gazprom	549.6	550.6	462.2	-16.1
Novatek	28.5	30.9	32.7	+5.8
Share of independent gas producers and oil companies, %	15.8	17.2	20.6	+3.4

Source: composed by the author based on industrial data.

In the oil sector, the state now controls a significantly higher share of the domestic oil industry than it did during the 1990s. By 2008, it was estimated that some 39 per cent of oil production and 49.3 per cent of refining capacity were state-controlled. As Table 15 shows, from 2007 onwards Rosneft became the largest oil producer while Lukoil continually retains the second place.

Table 14 Oil production in Russia by major companies, mln t

Company	2006	2007	2008	2009
Rosneft	81.7 (+ 21.5 Yukos)	101.7 (+9.0 Yukos)	113.8	116.3
LUKOIL	90.4	91.4	90.0	92.2
TNK-BP	72.4	69.4	70.5	70.2
Surgutneftegaz	65.6	64.5	60.0	59.6
Gazpromneft	32.7	32.6	30.8	29.9
Tatneft	25.4	25.7	25.8	26.1
Slavneft	23.3	20.9	19.6	18.9
Russneft	14.8	14.2	14.2	12.7
Bashneft	11.7	11.6	11.5	12.5
Gazprom	13.5	13.2	12.9	12.0
Novatek	2.6	2.6	2.6	n/a
Total	480.5	491.3	487.1	494.5

Source: composed on data from various sources.

In 2009, Russian energy companies were particularly active in their attempts to consolidate their assets both domestically (e.g., Novatek bought 51 per cent of Yamal SPG, Gazpromneft increased its stake at Sibir Energy from 16.95 per cent to 75), and internationally. Examples of the latter were numerous. Gazprom, for instance, attained 49 per cent in Gerosgas from E.ON Ruhrgaz AG, concluded an agreement on the

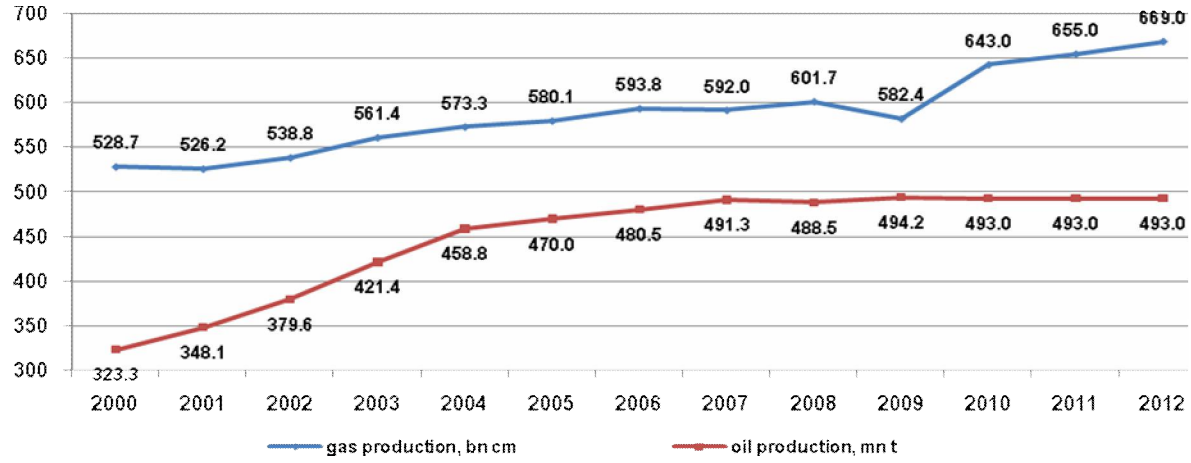
South Stream project with Hungary's Development Bank, held negotiations with Slovenia's fuel retailer Petrol, and announced its interest in Japan's gas distribution network. Gazpromneft struck a deal with Chevron Italia S.p.A. Lukoil has bought 49 per cent of ERG's Isab refinery in Priolo in Sicily (€1.35 bn) and a 45 per cent stake in Dutch TRN oil-refinery ($725 mn), made offer for 30 per cent shares package (€9.8 bn) in Spain's energy company Repsol, and intended to bid for stake in the Czech's largest oil refinery Ceska Rafinerska. LUKoil has bought BP's 46 per cent stake in the LukArco project for $1.6 bn. The transaction makes LUKoil the sole owner of LukArco, which has a 5 per cent share in TengizChevroil (Tengiz and Korolevskoye fields in Kazakhstan), a 12.5 per cent stake in the 28.2 mn t Caspian Pipeline Consortium, which carries Kazakh and Russian oil to Novorossiisk. Together with Transneft, Lukoil considers acquiring a part of Lithuania's Mazeikiu Nafta (held by Polish PKN Orlen). Lukoil and Rosneft are planning to participate in privatization of Belarus' oil-processing plant Naftan Polymer, one of the largest in Eastern Europe. Surgutneftegaz purchased 21.2 per cent of MOL (Hungary) for €1.4 bn from OMV (Austria).

There has been also an increasing presence of foreign investors in Russian energy companies. That is to say, E.ON Ruhrgaz AG bought 25 per cent in Severneftegazprom from Gazprom, EniNeftegaz (Eni – 60 per cent, Enel S.p.A. – 40 per cent) acquired 20 per cent in GazpromNeft, E.ON Ruhrgaz AG ConocoPhillips obtained 10 per cent in Lukoil, Petronas (Malaysia) and CNPC (China) jointly purchased 7.5 per cent of Rosneft capital.

Production Dynamics

As the data presented in Graph 7 suggest, throughout the 2000s oil and gas production (and export) were generally following an ascending trend.

Graph 7 Oil and gas production by volume.



Source: composed by the author.
Note: data for 2010-2012 - forecast by the Ministry of Economic Development.

A major slump, especially in gas sector, has occurred in late 2008 and continued in 2009. Nevertheless, at the second half of 2009, following gradual revival of the global economy, the domestic production has started recovering (refer to Table 15).

Table 15 Oil and gas output 2009 dynamics.

	November 2009/ October 2009	November 2009/ November 2008	January – November 2009/ January – November 2008	2009	January – March 2010/ January – March 2009
Oil	- 3.2 %	3.2 %	1.0 % (451 mn t)	1.2 % (494.2 mn t)	3.2 % (123.9 mn t)
Gas	5.5 %	8.2 %	- 14.2 % (521 bn cm)	- 12.4 % (582.4 bn cm)	18.4 % (181.8 bn cm)

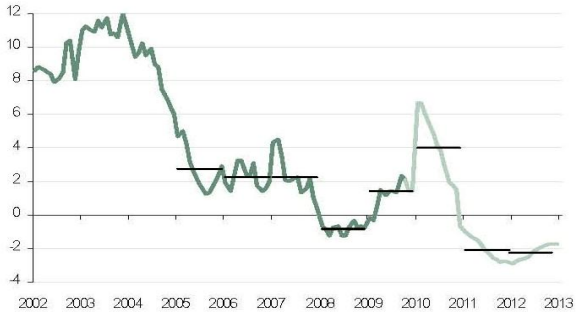
Source: composed based on various sources on industry's' dynamics.

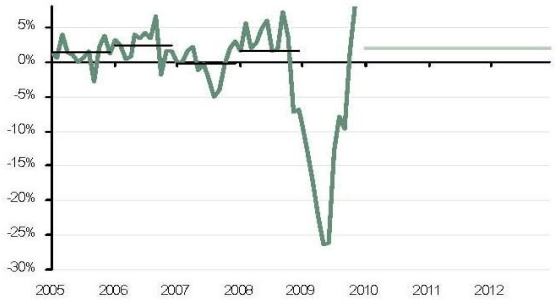
Note: mn t – million tones;

bn cm – billion cubic meters.

Graphs 8 and 9 reflect the depth of decline in oil and gas production. In fact, despite extremely favourable price conditions, growth in Russian oil production had slowed down prior the crisis. Diminishing productivity in traditional oil producing areas coupled with inadequate ratio of replacement of the depleted fields were the factors defining such a trend. Gas production followed a different logic: production dropped drastically after facing steep decline in demand, first and foremost, in Europe.

Graph 8 Crude oil production growth **Graph 9 Gas production growth (% YoY)**





Source: FSU oil and gas monitor (2010) Renaissance Capital. January 18. p.3.

By the Ministry of Economic Development forecasts, growth in oil production is expected to slow down after the new deposits in Eastern Siberia designated for the ESPO pipeline became operational. Gas production dynamics is largely to be defined by the recovery in demand on traditional European markets, as well as by progress in gas relations with the Asian countries, specifically, China and Korea. If the latter show their willingness to go ahead with Altai gas pipeline, the development of vast East Siberian and the Far Eastern gas field will be intensified.

Export

Since information on the general distribution of Russian oil and gas flows between the EU, CIS and Asian countries was presented in Map 2, this section highlights several additional aspects which are important for further analysis.

The emergence of more geographically balanced pattern of Russia's energy export relations is being observed. A glance at the table below helps highlight the logic behind Russia's move towards the partners in the East.

Table 16 Energy demand, mn toe

	1990		2007		2020 RS/S		2030 RS/S		2020/2007		2030/2007	
	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas	Oil	Gas
EU	603	295	607	432	557/ 512	463/ 429	545/ 448	508/ 418	-11.94	+3.24	-18.20	+7.18
Japan	250	44	230	83	169/ 154	86/ 76	152/ 131	92/ 81	-29.78	-2.41	-38.48	+4.22
China	*114*	*13*	*358*	*61*	*557/ 522*	*147/ 136*	*758/ 664*	*202/ 166*	***+50.7***	***+131.97***	***+98.6***	***+201.64***
Korea	-	-	78	35	114	49.23	133.4	44.1	+46.15	+40.66	+71.03	+26

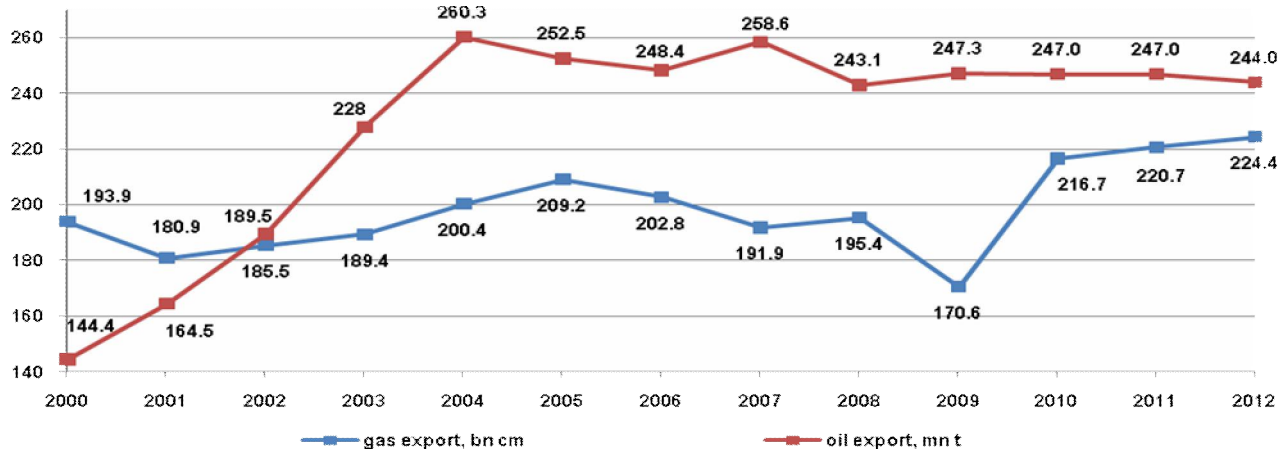
Source: World Energy Outlook 2009. IEA.

Note: RS – reference scenario; S – 450 scenario;

Data on Korea retrieved from KEEI, BP and other sources.

Energy commodities,[101] according to Russia's Federal Customs Service in 2009 composed as much as over 70 per cent of Russia's exports to 'far abroad' and above 40 per cent of Russia's sendings to the 'near abroad'.

Graph 10 Gas and oil export by volume.



Source: composed by the author.

Note: data for 2010-2012 - forecast by the Ministry of Economic Development.

In 2009 Russia's total oil exports, the 'far abroad' accounted for 93.38 per cent while the CIS' share was 6.62 per cent. As regards Russian gas exports, non-CIS countries received 79.96 per cent while the CIS states' purchases amounted to slightly over 20 per cent of the total Russian export volumes. Importantly, the share of the non-CIS countries in Russia's energy exports is increasing.

A further breakdown of Russia's non-CIS gas exports exposes a great dispersion in the volumes of gas sent to different European countries (refer to Table 17). Also, Russia's role as a supplier varies tremendously between the countries; some consumers almost fully rely on Russian supply, while the others are to a great extent independent.

[101] Commodities classified under 27 XXXXXXxx code of the Commodity Nomenclature of Foreign-Economic Activity of Russian Federation.

Table 17 European recipients of Russian natural gas, 2003-2009, bn cm/ y

Country	2003	2004	2005	2006	2007	2008	2009	% of domestic consumption*
Germany	30.6	35	36	34.4	34.5	37.9	33.5	36
Turkey	12.6	14.6	18	19.9	23.4	23.8	20	64
Italy	19.7	21.5	22	22.1	22	22.4	19.1	25
France	11.2	13.3	13.2	10	10.1	10.4	10	20
UK	1.1	2.9	3.8	8.7	15.2	7.7	9.7	11
Poland	7.4	6.3	7	7.7	7	7.9	9	47
Hungary	10.4	9.3	9	8.8	7.5	8.9	7.6	54
Czech Republic	7.4	6.8	7.4	7.4	7.2	7.9	7.1	79
Netherlands	2.3	2.7	4.1	4.7	5.5	5.3	5.1	14
Slovakia	15.1	15.7	7.5	7	6.2	6.2	5.4	100
Austria	6	6.5	6.8	6.6	5.4	5.8	5.4	74
Finland	5.1	4.9	4.5	4.9	4.7	4.8	4.4	100
Belgium	0.1	0.6	2	3.2	4.3	3.4	3.3	-
Romania	3.2	4.6	5	5.5	4.5	4.2	2.5	28
Bulgaria	2.7	2.8	2.6	2.7	2.8	2.9	2.2	96
Greece	1.9	2.2	2.4	2.7	3.1	2.8	2.1	82
Serbia	1.9	2.2	2	2.1	2.1	2.2	1.7	87
Croatia	0.6	0.3	1.2	1.1	1.1	1.2	1.1	37
Slovenia	0.7	0.2	0.2	0.7	0.6	0.6	0.5	64
Switzerland	-	-	0.4	0.4	0.4	0.3	0.3	12
Macedonia	0.1	0.1	0.1	0.1	0.1	0.1	0.1	100
Others	0.3	0.4	0	0.4	0.5	0.6	2.5	n/a
Total	140.3	153.2	156.1	161.5	168.5	167.6	152.8	n/a

Source: retrieved from Gazprom's web-site.

Note: * 2006 data from <www.eia.doe.gov>

In the FSU, despite significant declines of about 33 per cent and 17 per cent in 2009 in exports to Ukraine and Belarus, respectively, the two countries remain the largest importers of Russian gas (refer to Table 18). Economic factors solely do not explain this decline in purchases. A rather complex set of issues in bilateral Russia-Ukraine and Russia-Belarus relations have been directly affecting the energy ties. Ukraine and Belarus are indeed Russia's vitally significant transit partners, relations with whom to a great extent define Russia's cooperation with the West.

Table 18 Gas exports to the Baltic and CIS countries, 2003-2009, bn cm/y

Country	2003	2004	2005	2006	2007	2008	2009	% of domestic consumption*
Ukraine	26	34.3	37.6	59	59.2	56.2	37.8	66
Belarus	10.2	13.4	19.8	20.5	20.6	21.1	17.6	98
Kazakhstan	-	5.1	4.0	6.5	10	9.6	3.1	-
Lithuania	2.9	2.9	2.8	2.8	3.4	2.8	2.5	78
Moldova	2.3	2.7	2.8	2.5	2.7	2.7	3.0	-
Armenia	0.3	1.3	1.7	1.7	1.9	2.1	1.7	35
Georgia	0.3	1.2	1.4	1.9	1.2	0.7	0.1	100
Latvia	1.2	1.5	1.4	1.4	1.0	0.7	1.0	-
Estonia	0.9	0.9	1.3	0.7	0.9	0.6	0.8	-
Azerbaijan	0	0.8	3.8	4.0	0	0	0	-
Turkmenistan	0	1.5	0	0	0	0	0	-
Total	44.1	65.7	76.6	101	100.9	96.5	67.7	n/a

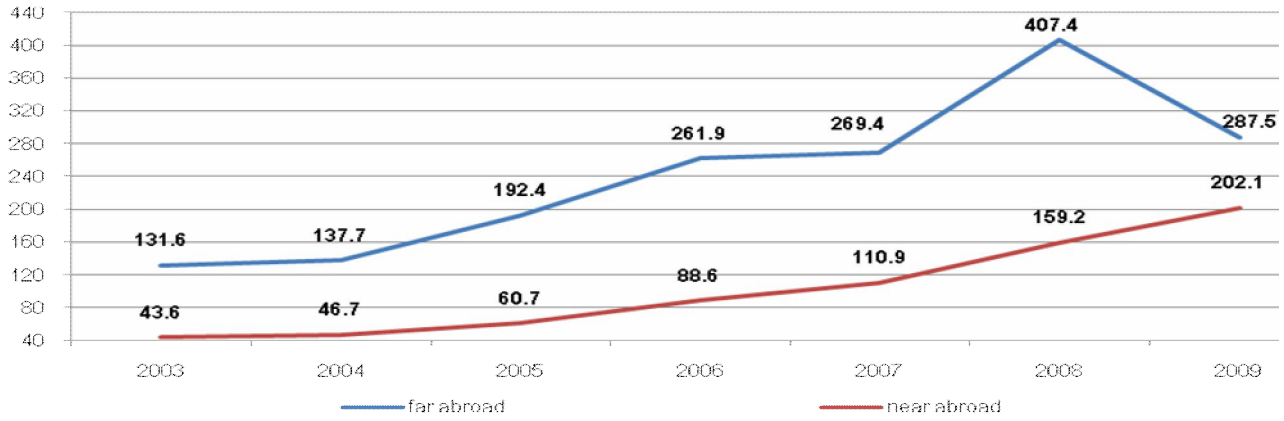
Source: retrieved from Gazprom's web-site.

Note: * 2006 data from <www.eia.doe.gov>

As regards other FSU markets, Turkmenistan and Azerbaijan are no longer importers of Russian gas, Kazakhstan's 2009 import decreased by over three fold compared to the volumes in two previous years. Owing to steadily augmenting domestic gas production, the Caspian countries, particularly Turkmenistan and Azerbaijan, became gas exporters in their own right and Kazakhstan plans to turn into a net exporter in the near future. Thus, an overall trend of decreasing Russia's gas exports to the 'near abroad' can be discovered.

As the Graph 11 shows, the commercial terms of gas exports to the 'far' and 'near' abroad have all along been to a great extent different. From 2009 (and onwards, as can be learnt from Table 18), the gap in gas export prices is narrowing.

Graph 11 Russian gas average export prices (duties & excises included, VAT extracted), $/ 1000



Source: composed on data from Gazprom's web-site.

Gazprom's pricing in the FSU, as follows from the data below, distinguishes between two categories which for the convenience's sake can be named 'less-favoured' group and 'favoured' group. The former comprises of the Baltic states and Georgia; while the group of 'favoured' importers embraces Armenia, Belarus and Kazakhstan. In Gazprom's earlier projections, as table 19 warrants, Ukraine was included in the first group. However, since President Yanukovich came to power and Russia-Ukraine energy relations have seen a totally different discourse, Ukraine now certainly stands to be treated as one from the 'favoured' camp.

Table 19 Russia`s gas sales prices, $/ 1000 cm.

Country	2007	2008	2009	2010E	2011E	2012E	2013E
Lithuania	217	372	245	269	293	306	303
Latvia	250	346	245	269	293	306	303
Estonia	250	372	245	269	293	306	303
Georgia	235	270	245	269	293	306	303
Moldova	170	191	245	233	293	306	303
Ukraine	130	180	223	269	293	306	303
Armenia	110	110	143	174	205	214	212
Belarus	100	128	148	184	205	214	212
Kazakhstan	140	140	162	184	205	214	212
Average price	132	168	203	232	262	274	272

Source: Gazprom. Renaissance Capital. February 9, 2010. p. 21

As regards Russia's oil exports, having augmented the volume of exports by nearly nine fold in 2009 as against 2001, Rosneft became the largest oil exporter (refer to Table 20). Almost two-fold growth in exports can be observed in the cases of Surgutneftegaz and TNK-BP, while Lukoil has demonstrated a modest growth of slightly over 11 per cent. The latter is due to the company's strategic orientation towards oil processing, and increasing attention to geological exploration and development of green fields.

Table 20 Russia's oil export to the 'far abroad' by major companies through Transneft's system, mln t

Company	2001	2005	2008	2009
Rosneft	5.5	34.4	45.8	48.4
TNK-BP (TNK + Sidanko)	19	49.3	31.3	33.8
Surgutneftegaz	16.2	27.7	32.1	27.1
LUKOIL	22.5	34.4	28.1	24.9
Tatneft	9.2	12.6	14.8	15.9
Gazpromneft (Sibneft)	7.3	16.1	14.3	14.7
Russneft	-	6.1	4.9	4.6
Bashneft	4	4.4	3.4	1.9
Slavneft	5.2	5.1	-	-
YUKOS	23.5	1.64	-	-

Source: Export nefti i nefteproduktov// Neftegazovaya Vertikalj. # 5. 2010. p. 79.

Albeit Table 21 shows the export flows through the Transneft's system only, the data are representative in reflecting the shifts in the channels of Russian oil export. That is to say, there is an increase in oil export shipments by sea and rail. The first aspect can be explained by the BPS' launch. It became operational in 2001 and took in some of the oil previously shipped via Druzhba pipeline. Russia planned to redirect oil flows from Ventspils to Primosrk, and this eventually occurred in 2003. Furthermore, following the 2007 Russia-Belarus conflict over oil transit fee, the BPS II (Unecha – Ust Luga) pipeline project has been expedited and its construction launched in 2009. Implementation of the BPS II will further enlarge Primorsk port's clout and strengthen the role of the tanker transportation in shipping Russian oil. The second move –

augmentation of the shipments by rail – is a result of increased oil exports to China from Zabaikaljsk (by Rosneft). Also, Russian oil is being exported through the territory of Kazakhstan: via Omsk - Atasu – Alashankou pipeline (by TNK-BP and GazpromNeft) to China and via the CPC pipeline (from Tengiz to Novorossiisk by Rosneft and Lukoil).

Table 21 Transneft's oil export by transport means, mn t.

Transport	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
via sea ports	59.8	65.1	71.2	76.5	99.4	111.1	114.4	124.2	117.9	116.9
Druzhba pipeline	61.8	60.9	57.4	63.1	67.9	69.9	67.8	58.2	54.7	55.0
by rail	2.6	2.9	4.4	10.2	8.5	9.2	11.4	11.3	10.4	9.7
via CPC pipeline	-	-	-	-	-	4	4	3.6	2.4	4
Total Russian oil, including via CPC	124.2	128.8	133	149.8	175.7	194.2	197.6	197.3	185.5	185.6

Source: Section on Statistics// Neftegazovaya Vertikalj. # 5. 2010.

Even though Russia is not commonly associated with a transit function, in fact it has always been acting in such a capacity for the Caspian Sea region states. As Table 22 shows, compared to 2001 oil transit in 2009 augmented by over 50 per cent. Kazakhstan's oil has been mainly shipped through the Russian territory.

Table 22 Transit through Transneft's system, mn t.

Country	2001	2002	2003	2004	2005	2006	2007	2008	2009
Kazakhstan's oil	13.7	14.9	16.4	17.8	18.9	18.8	20.3	21.1	21.3
Azerbaijan's oil	2.3	2.8	2.6	2.8	4.1	4.5	2.2	1.4	2.5
Turkmenistan's oil	0.05	0.5	0.06	-	-	0.84	-	-	-
Oil for Belarus	0.4	0.6	0.7	0.9	0.88	-	0.7	1.2	1.6
Total	16.5	18.8	20.0	21.5	23.9	24.1	23.3	23.6	25.4

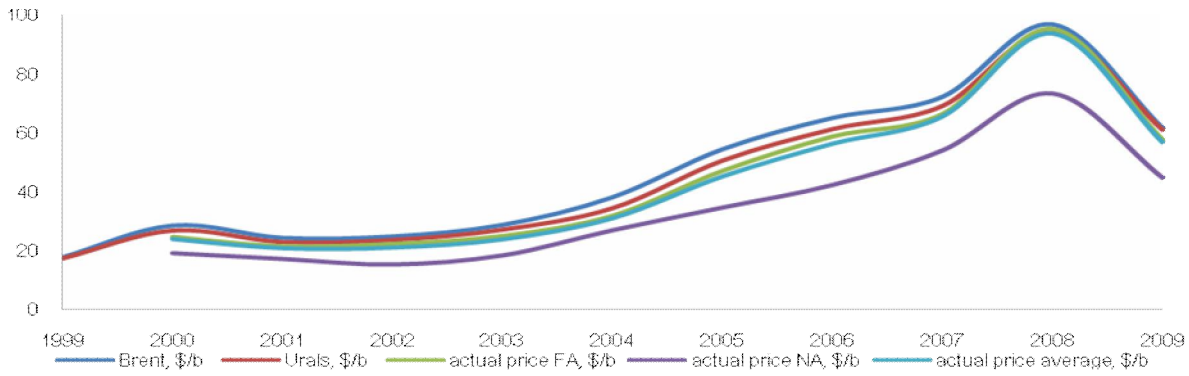
Source: Export nefti i nefteproduktov// Neftegazovaya Vertikalj. # 5. 2010. p. 79.

Russia's significance has long been preserved by the spatial design of the Soviet-era infrastructure, which deprived the Caspian states of direct access to the European markets. It is important to note that at the beginning of the current decade Russia's transit capabilities were objectively limited by deficit transport capacities, and domestic producers were as a matter of course given priority access to the pipelines. Limitation in transport facilities was indeed a big hurdle for the Caspian oil exporters, until the development of alternative export routes (construction of the CPC pipeline, 2001, Kazakhstan China Oil Pipeline, 2006, and Baku – Tbilisi – Ceyhan pipeline, 2006) provided these countries with the options.

As regards oil export pricing, there are two important aspects to be addressed: the first is of somewhat external origin and relates to the price for Russian oil in the international market, while the second is being defined by Russia.

A known fact is that Russian oil – Urals is a reference oil brand dubbed as REBCO at NYMEX - is traditionally priced below the Brent benchmarks. It is rather paradoxical situation because while the Brent is used as a benchmark for 65 per cent of globally traded oil, it composes only 2 per cent of the world's oil production. In turn, 12 per cent of the world's oil exports and 5 per cent of the world's consumption come on the Urals. In 2003-2007, for instance, the difference in price of the Brent and Urals was at times over $2/b. Pursuing a somewhat more just pricing, the Russian government is set to promote Russian oil seeking to establish several world-wide recognised blends. At the moment, there are five greatly different by their sulphur component Russian blends: Vityaz (0.18 per cent), Sokol (0.23), Siberian Light (0.58-0.6), ESPO (0.65-0.75), and Urals (1.2-1.39 per cent).[102] It is expected that a deeper differentiation between the blends will improve the commercial terms of exports for Russian suppliers. The Russian government's ambitions are though stretching as far as to use the rouble as a means of payment in the exports, which in turn, is hoped to help enhance the status of the national currency.

Graph 12 Multiplicity of Russia's oil exports prices, $/b.



Source: composed by the author based on data retrieved from Export nefti i nefteproduktov// Neftegazovaya Vertikalj. # 5. 2010. pp. 73-89.

Note: FA denotes 'far abroad', while NA – 'near abroad'.

Additionally, and this is the second aspect mentioned above, Russia's oil prices are multiple. The logic here is similar to that in gas export pricing: consumers from the

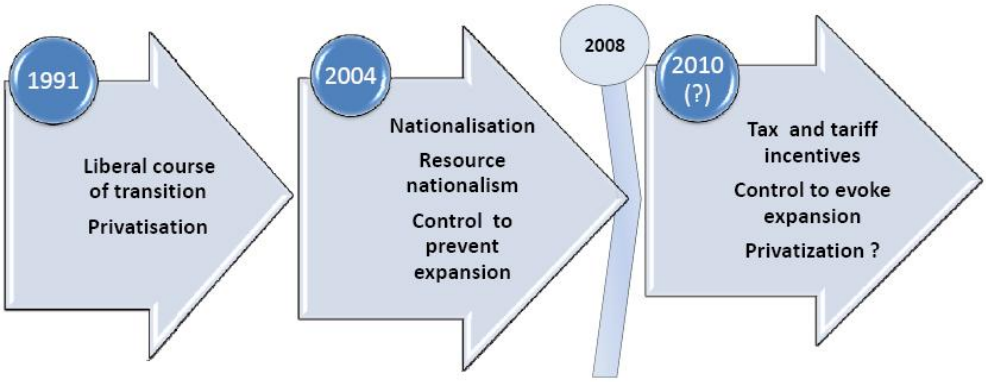
[102] Methodology and specifications guide. Argus CIS crude export. December 2009. p. 2.

'near abroad' as opposed to those from the 'far abroad' are customarily supplied at a lower price.

Summary of Overarching Themes in Russian Foreign Energy Policy

Summing up on the various developments described in this chapter, it seems accurate to present Russia's energy policy as consisting of three periods (refer to Graph 13).

Graph 13 Periodization of Russia's energy policy.



Source: composed by the author.

Albeit intended to match the overall course of market reforms, the state energy policy in 1990s suffered numerous failures originated in continuation of the Soviet practices. In a sense, energy policy was built upon perception that energy sector has to further maintain a role of a donor for the entire economy. Such a conclusion can be drawn from analyzing the structure and content of the policy documents approved throughout 1990s -early 2000s.

On the whole, the energy policy throughout 2003 was rather fragmentary and inconsistent with the course of market reforms commenced in the yearly 1990s. The goals formulated in the program documents had been poorly achieved, and were consequently dragged into the next paper on energy policy and again remained unattained. By about 2004, the overall domestic political environment has changed towards a greater power of the state. To give but few illustrations, from 2000 the oligarchs were ousted from the media, then the institution of presidential representatives to the regions was introduced as a measure to curb the power of regional governors, in 2003 the oligarchs were pushed out of the State Duma through forcing out the liberal parties that they financed and which were the main conduit for

their lobbying. Finally, the forced dissolution of Yukos and redistribution of its assets away to the state-controlled companies has signalled an eventual advent of state capitalism with expanded sphere of state entrepreneurship, established mechanisms of selective support for loyal state-oriented companies, punitive measures against the power-opposing entities, and supported by federal power vertical.

A liberal policy course in the Russian oil and gas sector has come to an end by 2004; from then onwards the policy has been based upon a heavier governmental control. State's interests in gas and oil industries were carefully guarded through nationalisation, which resulted in a higher degree of monopolization. The latter wound down competition and conserved the sector's overall inefficiency. There was a deliberate governmental course to cut back on the foreign investment. Even having fully realised the necessity for additional investment in resources' exploration and production, the amendment of the regulatory basis to allow for a greater participation of foreign partners and a freer access for domestic small and medium sized companies have been postponed.

In the wake of the 2008 crisis, Russia faced all the limitations of a resource dependent economy and the need for qualitatively new pattern for economic development was emphasised. It was assumed that the fundamental improvements in the system of resource management can assist in attaining this objective.

Triggered by the 2008 financial crisis and subsequent economic recession shifts in Russia's energy policy stretch along a multidimensional agenda. Domestically, it is a course towards innovative and technologically advanced socioeconomic development that necessitates foreign capital and expertise. Externally, it is a more pragmatically-oriented approach to developing energy ties with the West and the FSU that simultaneously enables sorting out a broad range of hindrances emerged throughout the post-Cold War history of relations. Likewise, Russia's pragmatic move eastwards promises meeting several tasks concurrently. Domestically, it is economic development of the vast eastern territories which otherwise would further decay aggravating national security. From the international perspective, Russia stands to benefit both economically and in terms of its stature in the international affairs from closer cooperation with major Asian economies. What seems to be interesting is that Russia - maybe for the first time in its history - is trying to implement an authentically Eurasian vision of its place, roles, and behavioural patterns.

2 Russia`s Energy Policy towards EU, CE and NEA

"On no one quality, on no one process, on no one country, on no one route and on no one field must we be dependent.
Safety and certainty in oil lie in variety and variety alone"

Winston Churchill, 1913

Conventional analytical frame argues that Russia's conduct of external energy relations is in most instances led by the ambitions consistent with the Great Power politics. Russia's behaviour is frequently described in categories 'great', 'super' 'energy power', 'flexing energy muscle', 'using oil/gas weapon'. To what extent this cliché holds true? In the absence of a certain criterion, few indicators may help reveal principal nuances. To start with, Russia is Europe-dependent for its 64 per cent of gas and 79.6 per cent of oil exports. Moreover, Russia relies on Central Asia for the gas imports that cover as much as 20 per cent of Russia's commitments before Europe. Lastly, Russia is transit-dependent as 78 per cent of its gas exports pass through Ukraine, and some 20 per cent go via Belarus. The latter is also home to the northern route of Druzhba pipeline which enables shipment of 28 per cent of Russian oil exports to Europe.

Apparently, Russia's ultimate energy leverage against Europe and Central Asia is sooner a myth rather than an objective reality. Russia's profound dependency on Europe translates into its vulnerability against fluctuations in demand in this largest external market and volatility of the country's export revenues. It also to a large extent defines the dynamics of Russian oil and gas production, which in turn triggers large-ranging social and economic impacts.

Russia's energy relations with the EU is a telling example of symmetrical interdependence. A number of reasons can be thought of in this regard. Two aspects, physical capacity (pipelines) and commercial arrangements (long-term supply contracts), especially tightly linked the supplier with the consumers in the west and created a pattern of relations which is rather hard to accommodate to new realities. It is especially true in the gas segment, where conventional natural gas transported through the pipelines is being increasingly replaced by the LNG delivered by tankers and traded upon spot contracts. Another strand of complexity stems from a 'third party factor', which always plays a significant role in the Russia – EU energy relations. On the

whole, Russia's energy ties with the West are highly intertwined and cannot be easily replaced or transformed by none of the parties involved.

By contrast, the infrastructure for Russian gas exports is non-existent in the East and the first export-oriented oil pipeline was only recently opened here. Importantly, some advantages from Russia's closer involvement with the Asian partners can be discussed. There are possibilities to establish energy relations based upon a state-of-the-art mode with the most progressive techniques employed and the most efficient technologies probed. Suffice it to note, Russia's first LNG plant has been built in Sakhalin (and that is why there is no urgency to stretch gas pipelines), Russia's deepest and technologically challenging offshore wells were drilled on the Sakhalin shelf, Russia's higher quality oils – on which Russia counts in its aspirations to improve price of the Russian crudes in the world market - are yet again found in East Siberia and Sakhalin. Not least, the Asian dimension demonstrates large and projected to grow further demand for oil and gas.

Delineating three-point analytical focus of Russia's energy policy towards Europe, Central Eurasia, and Northeast Asia, the principal roles and linkages among the sides involved can be depicted as follows:

- Russia is a traditional energy supplier to Europe, rather new partner to Northeast Asian countries (NEAs), and a recognized actor in Central Eurasia;

- Central Eurasian states (CEs) are established partners of Russia and new suppliers to both Europe and the NEAs;

- EU is a long-established customer of Russia, seeking energy supply diversification at the expense of the CEs' resources, and therefore worried about the NEAs' expanding presence in the CE;

- NEAs are habitual customers of the Middle East, persistently probing into the CE and gradually involving into cooperation with Russia.

In the following, most principal aspects of Russia's energy relations with each respective geographical dimension are discussed in greater detail.

2.1 Russia- Europe: Energy Ties and Energy Policy

"There few subjects as controversial and emotive as the energy relationship between the EU and Russia."

Fraser Cameron,
The politics of EU-Russia energy relations/ in EU-Russia energy relations (2010)/
Eds. Kim Talus and Piero Luigi Fratini. Euroconfidentiel S.A. p.25.

Albeit since the early 1980s Russia is the largest gas exporter to the EU, import growth from other countries (Norway, Algeria, Nigeria and the Middle East) has outpaced that from Russia. Accordingly, Russia's share in the EU gas imports has declined sharply from 75 per cent in 1990 to just about 30 per cent in 2009. The share of the EU gas consumption covered by Russian imports grew rapidly in the 1970-80s, peaked at 30 per cent in the early 1990s, and yet again is shrinking. Of the current Russian gas imports, 86 per cent is consumed by the original 15 EU members (of which 47 per cent falls on Germany and Italy), and this amount only accounts for 20 per cent of the EU-15 primary gas supply. In Europe's primary energy consumption, gas imports from Russia compose 6.5 per cent, a share that has not changed for the last 20 years.[103] In the oil sector, Russian supplies cover some 24 per cent of the EU's consumption and amount to 33 per cent of the EU's imports.

Despite all the speculations about the EU insecure position against Russian energy supply, it may be suggested that Russia's position in the European market is no less precarious. A number of factors, such as ongoing structural transformation in the gas market (with the sequels being lower price, shorter terms of supply contracts, etc.), the EU's policy of diversification of both energy sources and sources of supply, etc., not only endanger future Russian supplies, but - given that energy flows create a chain of effects - affect Russia's trade, investment, technology exchange and far beyond.

In the recent past, the Russia-EU energy relations were affected by a range of discourses. Such were, for instance, the EU's enlargements of 2004 and 2007, Russia-Belarus dispute in early 2006, Russia-Ukraine especially acute controversies of 2007 and 2009, Russia-Georgia war in August 2008, etc. These events deepened the divergences in the partners` views, expectations and ambitions.

[103] Noel, Pieere (2008) Beyond dependence: How to deal with Russian gas. Policy Brief. ECFR 09. November.

Within the EU itself, its expansion and indeed its diversity both appear to have come at the expense of a clear strategy for dealing with Russia. The EU had apparently no common supranational stance with respect to Russia, and the EU members were rather distinctively fractioned into several groups from Russia`s ardent critics to its loyal partners. Albeit the post-crisis developments and certain shifts in the political discourses have somewhat softened several controversies, there is yet great differences between the EU members with regard to Russia. Traditionally, countries of the former Soviet bloc - Estonia, Lithuania, Latvia, the Czech Republic and Slovakia - are for the most part belligerent to Russia. Poland has long belonged to this group, but energy agreements of late 2009 and especially the tragic plane crash on April 10, 2010 in Russian Smolensk, have brought the two countries closer. Another circle of EU members who moderately criticise but yet cooperates with Russia is composed of Romania, Slovenia, Sweden, Bulgaria, Hungary and the United Kingdom. Of a more constructive attitude towards Russia is a group composed by Italy, Austria and Greece. Yet, there is a larger group consisting of Russia`s rather loyal partners: Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Portugal and Spain. On the opposite side of the spectrum, Russia equally has no solid policy towards Europe, intentionally avoiding a unified approach.

The origins of the EU schism over a unified energy agenda towards Russia can be summarised as a result of these dynamics:

- role of the national political parties and political leaders. There is a general notion that “center-left governments in Central Europe are less Atlanticist and more inclined to tack towards commercial opportunism” and that “…countries governed by left-leaning leaders are more likely to be tempted by Russian policies designed to trip up the strategic players”; [104]

- lack of common EU energy policy because “select member states … are reluctant to confront Russia on its energy monopoly, bilateral deals with Russia (instead of European unity).” Such states as the UK, France, Italy, etc. care about their companies’ business interests (BP, Total, Gaz de France, Eni) in Russia, therefore avoid jeopardizing ties with Russia. By the same token and even much more, Germany is considered to be “the prime culprit standing in the

[104] Miller, R. Ryan (2008) Central Europe’s Energy Security Schism. Washington: Center for European Policy Analysis. pp. 3-5 <http://www.atlantic-community.org/app/webroot/files/articlepdf/Central_Europe_Energy_Security_Schism20080724.pdf>

way of a common EU energy policy. Under former Chancellor Gerhardt Schröder, Germany snubbed multilateral approaches to energy security in favour of a more unilateral pursuit of German business interests. Albeit since the 2005 Chancellor Angela Merkel has worked to change the excessive *Ostpolitik* of her predecessor, in the national political elite two camps - "the anti-American left" and "pro-business right"[105] - both remain strongly supportive to Russia;

- a weak regional unity within Central Europe;

- Russian 'divide-and-conquer' tactics applied to escalates competition of projects and rivalry between actors (consumers/ suppliers, transit states) concerned; etc.

Supposing that discussion about which side is a culprit of the existing discord cannot be unproductive, for the purpose of further analysis it is assumed that the Russia-EU disagreements originate in the collision of interests, which the two sides pursue while attempting to modify their energy policies in order to better respond to global, regional and national challenges.

Energy Dialogue's Prime Focus

Russia's energy relations with the EU are framed by the EU-Russia Energy Dialogue, which was launched in 2001 with the purpose to foster bilateral relations in the field of energy. In 2006, three thematic groups have been established to deal with energy efficiency, energy market development and forecast and scenarios. However, relations between Russia and Europe, traditionally technically established, technologically tuned, and commercially safe, had been deteriorating steadily over the past years.

The EU's November 2008 energy policy package has exposed the Union's willingness to cut on dependence on Russian energy supply. As a means to do so, the European Commission has adopted the EU Energy Security and Solidarity Action Plan: 2nd Strategic Energy Review which envisages the development of infrastructure in order to diversify the EU energy supplies; a revision of the external energy relations by strengthening cooperation with Northern Africa, Caspian region, etc; the enhancement

[105] Lucas, Edward (2008) The new Cold War. How Kremlin menaces Russia and the West. London, New York and Berlin: Bloomsbury. p.226.

of oil and gas stocks and crisis response mechanisms; the improvement of energy efficiency, and a better use of the EU's indigenous energy resources. A number of programs, such as Baltic interconnection plan; Southern Gas Corridor; LNG Action Plan; Mediterranean energy ring; North-South gas and electricity interconnections; and North Sea offshore grid, have been approved.

Rather unexpectedly, given the severe impacts of the 2008 crisis on the Russian economy, the country has eventually refused to ratify the Energy Charter Treaty advocating its interest to establish a more just system for the international energy cooperation. Additionally, Russia - EU official relations moved to a somewhat less secured grounds as the EU – Russia Partnership Agreement expired in 2007, but the parties are yet to complete the negotiation of a new document. Effectively, the Russia – EU energy dialogue became one of the most effective frameworks to maintain the bilateral relations.

The overall objective of Russia – EU energy partnership is formulated as "to enhance the energy security of the European continent by binding Russia and the EU into a closer relationship in which all issues of mutual concern in the energy sector can be addressed while, at the same time, ensuring that the policies of opening and integrating energy markets are pursued."[106] Logically, the strong mutual dependency in energy sector results in energy security arising as a pivotal aspect of the EU-Russia energy relations. However - and the excerpt from the document perfectly mirrors that - Russia's energy security is not referred to as a matter of equal importance. More concretely, the document reads that bilateral dialogue's objective is to ensure energy security of the EU and transform Russia's related policies into a mode more compatible with the EU's paradigm.

It is not surprising then that the two sides' approaches to achieve this seemingly shared goal of ensuring energy security are different. To a certain extent, the disparity is even natural, because it originates in the very characteristics of the partners: the EU, as a consumer and energy net-importer, tackles the issue of energy security from an angle of the security of supply; in turn, Russia, as a major producer and exporter, is understandably concerned more with how to ensure the security of demand.

[106] EU - Russia Energy Dialogue. March 19, 2009 <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/121&format=HTML&language=en>

Quantitatively, the EU's and Russia's energy interests can be mutually adjusted. It however should be noted here that the estimates on the EU's demand for gas and oil vary significantly from source to source (the decline and uncertainty about the recovery after the crisis may partially explain such situation). In quantitative terms, the table below provides the EU's own estimates on oil and gas consumption and import growth until 2030.

Table 23 The EU-27 energy.

	2006 import dependency, %	2030 consumption		2030 net import, ktoe		2030 import dependency, %
		ktoe	% to 2005	ktoe	% to 2005	
Oil	83.7	99276	+42%	93110	+50.9	93.8
Gas	60.8	89310	+48.2%	74604	+69.8	83.5

Source: calculated based on data DG TREN, 2009, and Trends to 2030 – Update 2007. DG TREN, 2008.

The EU's analysis project a trend of diminishing indigenous oil and gas output and growing import dependency. The IEA's 2009 forecast on the EU's gas imports proceeds from similar assumptions, but suggests that the EU's gas imports would be increasing at somewhat more modest pace. According to the IEA, throughout 2007-2030 the EU net gas imports are projected to grow at 1.4 per cent (450 Scenario) or 2.2 per cent (RS scenario) annually (refer to Table 24). In fact, there is a great degree of discrepancy between the long-term outlooks on the EU gas demand. Gazprom's estimates are higher than those by IEA and hold that by 2020 the EU would need some additional 70-100 bn cm, and by 2030 - 205 bn cm (implying that the company will have a market ready to absorb about 120 bn cm of Russian gas piped through the yet to-be-built Nord Stream and South Stream).

Table 24 EU's net gas imports, bn cm

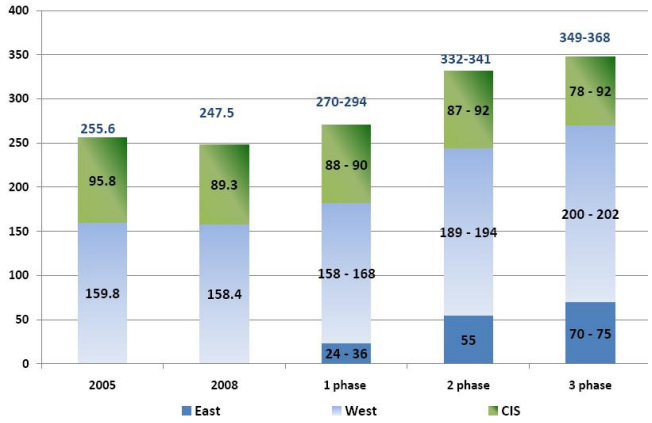
	2007	2015	2020	2025	2030
Gas net imports RS	312	365	425	473	516
Gas net imports 450 S	312	350	391	430	428

Source: World Energy Outlook 2009. IEA.

Note: RS – reference scenario; S – 450 scenario (lowered emissions levels of greenhouse gases).

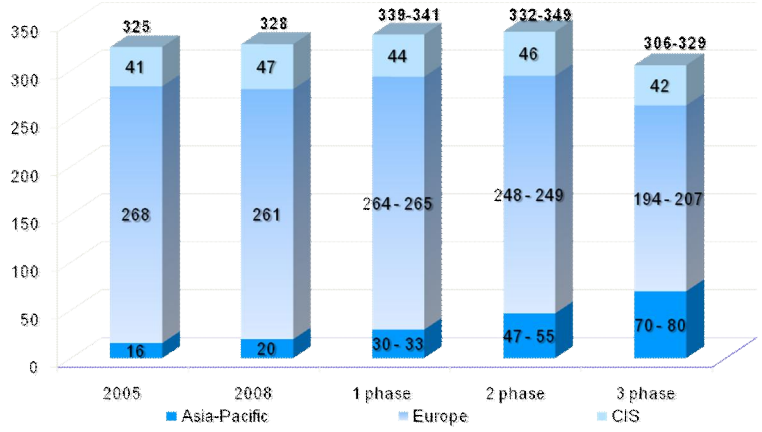
Meanwhile, Russia's estimates on gas and oil exports to Europe (the Energy Strategy until 2030 and Gazprom's program) can be characterised as mostly self-centred and production-based. Quantitatively, as the Graphs 14 and 15 suggest, Russia's gas exports to Europe are expected to augment, while oil supply is projected to decline.

Graph 14 Russia's gas export structure, bn cm



Source: composed by the author on data from the Energy Strategy 2030.

Graph 15 Russia's oil export structure, mn t



Source: composed by the author on data from the Energy Strategy 2030.

In other words, the Strategy's scenarios are largely built upon the anticipated domestic sectors' output capacity, but shifts at the demand side are not seriously taken into consideration. To be objective, certain adjustments to the exports projections were made, but once again the cuts were almost exclusively linked to the declining energy demand following the crisis. There was no close scrutiny of the further possible shifts in energy demand due to the development, for instance, of non-conventional sources of energy, non-fuel energy, climate and energy saving policy, etc.

While recognising the EU's market importance, Gazprom yet keeps drawing its export plans (and investment and production programs) based on its own calculations. According to the latter, by 2020 the EU's demand is expected to augment by some 130 bn cm as the result of 70 bn cm increment in demand accompanied by some 60 bn cm

decline in indigenous production, and even further up to 250 bn cm by the year of 2030.[107] The industry's experts both in and (even more so) outside of Russia tend to be more moderate in their long-term estimates on the EU's energy demand growth.

The European partners often express their concern over the geographical shifts in Russia's energy exports, arguing that the ESPO enables swings between the West and the East, and therefore can significantly change Russia's exports dynamics. This view, though, should be taken with a grain of salt. Even provided that economics of distance is not a decisive factor because the network tariff levels off the profitability of West- and East-oriented exports, the swaps, at least the spontaneous (undermining security of supply the most) ones, are rather unlikely. Russian oil companies have more or less clear geographical concentration of production, and the export linkages are established subsequently (literally, the companies producing oil in Russia's West tend to export it westwards).

As for the factor of *price*, it is, especially in the case with oil, a matter of a market mechanisms. Gas pricing is a somewhat different case because of two particular aspects. The first one is basically beyond Russia's control, while the second factor may potentially provide some room for manoeuvre. More concretely, profound changes in the gas market per se resulted in the emergence and rapid expansion of spot trading and short-term gas sales, which have indeed adversely impacted Gazprom. The traditional "take or pay" clause in gas contracts has become an issue in the bilateral gas trading. Since Russia-EU gas trade is based upon long-term contracts for the piped gas, this provision may remain valid for some years to come, but as the year 2009 illustrated, certain adjustments seem to be needed. Again, bearing in mind the scale of Russia-EU gas relationship and the extent of mutual interdependency, it can be suggested that even if Russia-EU gas trading pattern undergoes some transformations, it is most likely to be formed in a somewhat dyadic mode. More concretely, there will apparently be a certain portion of spot trading and short-term contracts, while long-term contacts with all associated with them features will also exist as a primary means to assure a certain - 'critical' - level of energy security.

On the other hand, Russia as the world's gas largest producer[108] and reserves' holder plays a significant part in the emerging international framework for gas governance.

[107] In 2010, Gazprom plans to increase gas export to Europe by 15% to 160.8 bn cm. FSU will receive 66 bn cm (53 bn cm in 2009). Export from CA will augment to 39.6 bn cm (against 35 bn cm in 2009). Gazprom targets at boosting its share in European market from current 25% to 28% in 2010, and further to 30% in 2015, and to 32% by 2020. Gazprom's 2010 average export price estimate is $326 ($296 in 2009).
[108] Until 2009, when Russia was overtaken by the US, which eventually yielded a fruit of their strategy on unconventional gas production.

The GECF (incidentally, headed by Russia's representative) with the prospects for its further institutionalization (coined "gas OPEC") and the SCO come to mind as a real opportunity for Russia to take on a governing role more consistent with its status of a major gas producer and exporter. This may result in a somewhat more clear Russian influence in shaping pricing trends.

On the account of *continuity of supply*, there is a need – as the modern history of transit relations proves - for a third party's considerations to be incorporated in the dialogue. Implementation of the Early Warning Mechanism in 2009 and engaging Ukraine into the Russia-EU dialogue process showed that there are effective channels for securing energy supply against disruptions.

Russia's Gas Relations with the EU

Although, the economic crisis and structural shifts in the gas market itself (boom in the North American non-conventional gas production, expansion of spot market, etc.) have resulted in a smaller demand for Russian gas, the country remains Europe's major gas supplier; importantly, a major supplier whose 80 per cent exports' transit is controlled by Ukraine. The 2009 Russia-Ukraine dispute over the gas payments resulted in cuts in supplies to Europe and again stirred up debates about Russia's reliability as a major supplier triggering further shifts in the EU external energy policy.

In 2009, the Eastern Partnership Energy Security Platform[109] was established to become an additional (beyond the Energy Community Treaty[110] and the ETC) means to conduct a robust external energy policy, to which the neighbourhood and enlargement policies are the essential elements. The EU develops the Eastern partnership (with Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) and Energy Community Dialogue with the producers (EU-Russia, EU-OPEC, EU-Norway, and EU-Africa) as well as Dialogue with transit/consuming countries (Ukraine, Belarus and Turkey). New initiatives include establishing partnerships with Azerbaijan, Kazakhstan, Turkmenistan, Africa, and Iraq, as well as the development of legal frameworks for supply routes, such as Nabucco IGA and Corridor Agreements.

[109] Eastern Partnership. Platform 3. Energy Security. November 5, 2009 < http://ec.europa.eu/external_relations/eastern/platforms/docs/platform3_051109_en.pdf >
[110] Signed by 34 countries, it aims at establishing a single regulatory framework for trading energy across Southeast Europe and the EU on the same terms.

Apparently, Gazprom faces the increasing challenges in retaining the lucrative European market. The current transformation of the international gas trade shapes an environment with which Gazprom's business practice is incompatible. Gazprom's contracts, for instance, are usually of 20-30 years duration with a "take-or-pay" clause. Also, Gazprom's gas price is traditionally pegged to the oil price. Amidst the economic recession, such commercial terms have additionally decreased the attractiveness of Russian supplies for the European customers. By December 2009, the European market under-consumed somewhat 8-9 bn cm of gas, which nevertheless Gazprom has initially expected to be compensated in the form of ToP penalties[111] (at a price $300 per 1000 cm, according to the contract, while spot market price stood at some $200/1000 cm). However, with non-conventional gas glutting the market, Gazprom has clearly realised that hard-line tactic may irreversibly undermine prospects for future business in Europe. Thus, controversial arrangements in gas contacts were renegotiated with major European partners (E.On, Eni, PGNiG, etc.) envisaging a correlation with the spot market price level. These compromising settlements have revealed that Gazprom is by far not omnipotent: having no plausible alternative to the European gas market, Gazprom had to adjust its contractual practice to the realities of the gas market.

Nord Stream, Nabucco and South Stream: Grands Projets et les Petits Partis

Three gas pipeline projects - Nord Stream, Nabucco and South Stream - have major significance for the Russia-EU future gas relations and involve interests of a great number of smaller and large Eurasian powers and the US.

Albeit Shtokman gas is expected to feed the Nord Stream pipeline at some later stage of the project (the Yuzhno-Russkoe gas deposit and the fields in Yamal-Nenets Autonomous Okrug and Tyumen Oblast are the major sources for the pipeline by the time it is commenced), it attracts significant attention due to a number of reasons. The development of the Shtokman gas and condensate field – one of the biggest deposit of some 3.9 tn cm of gas and 56 mn t of gas condensate – has long been emphasised by Gazprom[112] as one of its most important undertakings. Located in the Barents Sea shelf in about 600 km northeast of the city of Murmansk at sea depth of some 320-340 m, the project is challenged by extremely severe climatic and geological conditions.

[111] Estimates by different sources greatly vary: from $1.7-2.1 to 2.5 bn.
[112] Gazpromneftjshelf - a 100 per cent Gazprom subsidiary - holds the license to the project. The operator company is the Shtokman Development AG, a Swiss-registered joint venture (February 21, 2008) of Gazprom (51 per cent), Total (25 per cent) and Statoil (24 per cent).

Nonetheless, a number of the project's postponements - the most recent is from 2014 till 2016 (for the first gas to be piped, and 2017 as a target year for the first LNG shipment) with the final investment decision to be made in 2011 - are largely over a different reason. Shtokman is seen as enabling the enlargement of exports to the European and the Atlantic Basin gas markets. Growing gas-on-gas competition in Europe as well as North American non- boom in non-conventional output have apparently hampered Gazprom's positions. Nevertheless, in 2009, Gazprom opened its US trading unit, and yet reiterated its plans to ship as much as 90 per cent of Shtokman's LNG to North America by 2018, and stated its strategic target of supplying as much as 10 per cent of the US gas market by 2020. Gazprom also considers acquiring a US shale-gas producer to gain the know-how to exploit similar fuel deposits domestically.[113]

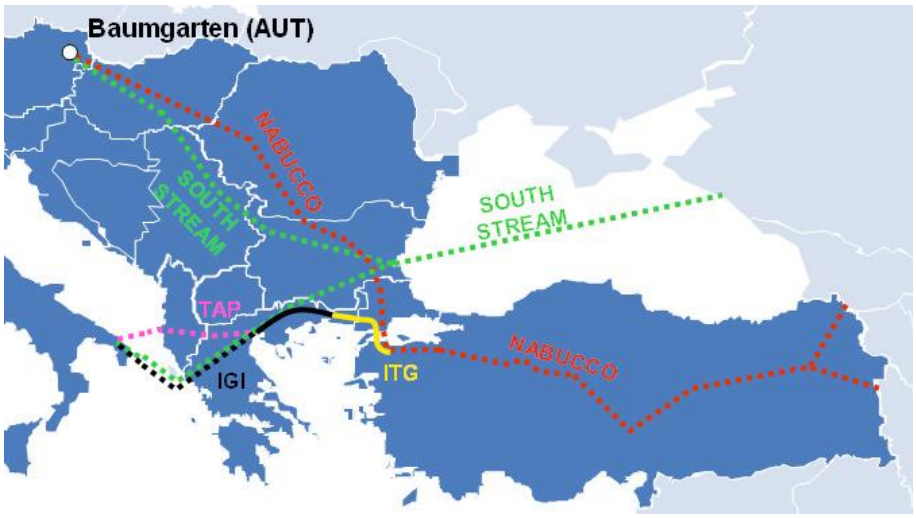
2009 was marked by a clear progress of the Nord Stream gas pipeline project. The 1,223-km pipeline, planned to transport Russian gas to the EU, is to pass through 506 km and 374 km of the Swedish and Finnish EEZs, respectively. Reportedly, Finland and Denmark have decided in favour of the project over Russia's reciprocal moves, namely, Russia's pledge to restrain from lifting export duties on timber until 2011;[114] and Russia's support to the UN Climate Change Conference in Copenhagen in December 2009.[115] Thus, by the end of 2009 all the governments in the Baltic Sea region have granted construction permits to Nord Stream to use their EEZs for the pipeline through the Baltic Sea, which enabled the project's launch on April 9, 2010. Importantly, the Russian government assigned the project a central role in fostering international cooperation in energy sector. In particular, foreign companies with technical, technological and financial potential adequate for the Arctic projects' development are repeatedly invited for the joint undertakings in Russia.[116]

Another EU-oriented gas pipeline promoted by Russia is South Stream, the project born out of Russia's discontent over frequent transit irregularities with Ukraine. In turn, seeking for the means to guard its own energy supply security the EU has developed

[113] Shiryaevskaya, Anna, Nichols, Hans (2009) Gazprom Has 'Everything' in Place to Avoid European Gas Cuts. Bloomberg. November 11 <http://www.bloomberg.com/apps/news?pid=20601085&sid=aMaiqKRgIUiw>
[114] Les v obmen na Severnyi Potok accessed on November 7, 2009 <http://www.bigness.ru/articles/2009-10-26/news/98267>
[115] Vcherashnee reshenie Shvetsii po Nord Stream bylo kraine neojidannym accessed on November 7, 2009 <http://www.rusenergy.com/ru/news/news.php?id=46935>. E.S.: The Russian government's Resolution № 843 "On measures to implement Article 6 of the Kyoto Protocol to the UN Framework Convention on Climate Change" (regards the joint implementation projects) approved on 28.10.2009 supports this supposition.
[116] Norwegian companies were characterised as such valuable partners. On June 5, 2009 Gazprom and StatoilHydro concluded MoU on joint development of Arctic shelf, Shtokman, etc. Concluded on April 27, 2010 Russia-Norway agreement on the disputed zone in the Barents Sea comes as additional impetus for international cooperation in the High North.

the Nabucco[117] pipeline project, which in a sense is a South Stream's competitor (refer to Map 5).

Map 5 South Stream and Nabucco routes.



Source: Nabucco: The most commercial Southern Corridor gas pipeline project. RWE Supply & Trading GmbH. November 13, 2009.

Studies on Nabucco, Nord Stream and South Stream are indeed ample. In order to avoid repetition of known facts, but yet not to miss out some principal aspects, Table 25 summarises on the projects' key specifications.

[117] Nabû-kudurri-u□ur (Akkadian, "Nabu [Babilonian God of wisdom – E.S.]), protect my firstborn son"), Nabucodonosor, Nebuchadnezzar...these all are the clues to describe that one whose name is Nabucco. The project christened in the name of the eponymous opera by Giuseppe Verdi that the project's sponsors attended immediately following their first project meeting in Vienna.

Table 25 Major pipelines' characteristics.

Pipeline	Partners	Technical specifications	Resource base	Potential markets	Operating environment
Nord Stream (Oct. 2001)	Gazprom 51% (Rus.); E.ON/Ruhrgas 20% (Ger.); BASF/Wintershall 20% (Ger.); Gasunie 9% (Netherlands). Probability of GDF Suez to join, provided an agreement between the original participants on redistribution of shares is reached.	Portovaya Bay (Rus)-Greifswald (Ger.); Length: 1220 km / Capacity: 55 Bcm (2 pipelines with 27.5 bn cm each); Online: 2011	Yuzhno-Russkoye (825.2 Bcm of gas ABC1 category, 208.9 bn cm of gas C2 category), Yamal Peninsula 16 tn cm gas reserves (ABC1+C2) & 22 Tcm of reserves (C3+D3), Ob-Taz bay (800 Bcm – 7.5 tn cm) & Shtokmanovskoye field (3.9 tn cm).	Greifswald (Germany): a) west NEL-RHG-MIDAL–Bunde->Denmark, Netherlands, UK (BBL); b) south OPAL-JAGAL-STEGAL-Oberhau->Poland, Czech, Slovak, Austria, Hungary (possibly, Ukraine and Belarus from Germany)	Denmark, Sweden, Finland, Russia, and Germany gave environmental approvals; political outcry in Baltic states and Poland weathered; concerns about economic feasibility and resources sufficiency.
Nabucco (2011)	Botas As (Tur.); Bulgargaz (Bul.); MOL Plc. (Hun.); OMV Gas & Power GmbH (Aus.); RWE AG (Ger.); & Transgaz S.A (Rom.) Equal stakes 16.67%. 50% capacity reserved for shareholders, 50% - for other gas shippers.	Georgian/Turkish and/or Iranian/Turkish border to Baumgarten (Aus). Length: 3,300 km (+690 km).* Capacity by 2022: 25-31 bn cm. Start: 2011. Online: 2014 (p.I – 8 bn cm)/ 2018 (p.II – 15 bn cm)	Azerbaijan - 13 bn cm (through upgraded South Caspian pipeline owned by Shah Deniz partners), Turkmenistan - 10 bn cm (through Trans-Caspian pipeline), Northern Iraq- 30 bn cm	Hungary, Czech Republic, Romania, Bulgaria, Slovenia, Austria, etc.	Alternative, on-land route from ME to Central Europe; most connectors don't exist; no guaranteed supplies.
South Stream (June 2007)	Gazprom 41% (RF), Eni 39% (It.) , EDF (Fr.) 20%	Novorossiisk (Rus.)-Varna (Bul.) 3200 km (+1300km).* Capacity: 63 bn cm; First leg operational – 2015.	Shah Deniz Phase II (Azeri)/ Turkmen/ Kazakh gas through CLP/ Russian sources Urengoi	Russia (Dzhubga) – Varna-Pleven Bulgaria: (a) Serbia - Hungary – Austria (Baumgarten); (b) Greece – Italy (Brindisi).	Undersea route by-passing Ukraine and Turkey; supplies unclear; costs un-determined.

Note: * - additional transport pipelines required to deliver gas from wellhead in Azerbaijan to the entry point of pipeline project.

Source: revised version of adopted from Dusseault, David, Europe's Triple By-pass: the Prognosis for Nordstream, Southstream and Nabucco/ In Kari Liuhto (ed.) The EU-Russia gas connection: Pipes, politics and problems. Electronic Publications of Pan-European Institute 8/2009. p. 29; Official site of Nabucco Gas Pipeline International GmbH <http://www.nabucco-pipeline.com>; Nabucco: The most commercial Southern Corridor gas pipeline project. RWE Supply & Trading GmbH. November 13, 2009.

The synopsis of major European pipeline projects presented in Tables 25 and 26 proves that South Stream and Nabucco are largely competing for both the upstream sources and consumer markets. While political and geopolitical factors (Iraqi supply, transit through Turkey and Georgia, etc.) diminish the competitive status of Nabucco, the project is more attractive from the economic prospective. That is to say, by some estimates, the Nabucco's tariff is €1.7/1000 cm/ 100 km, while that for the South Stream is €3.8/ 1000cm/ 100km. Similarly, an evaluation of wellhead-to-market cost for

the Nabucco is €77/1000cm, which is significantly lower than €106/1000cm for the South Stream.[118]

Table 26 Comparative positioning of pipelines.

Year of commissioning/ completion	Natural characteristics	Financial parameters	Informational aspects	Institutional and legislative factors	Possible effects
Nord Stream April 9, 2010/ 2011	Direct supplies from reliable supplier; environmentally risky, technologically and technically challenging project requiring international cooperation..	Pricey; wellhead costs depend on fields' location. CAPEX: €8.8 b. 30% stakeholders' funds, 70% - from credit market. €3.9 b for 1st stage provided by 26 banks; €3.1 b insured by German (€2.6 b) and Italian (€0.5 b) governments until 2026; €0.8 b until 2020 uncovered	Questions abound about profitability, safety and technical soundness.	Established organizationally (Nord Stream AG (Gazprom, Wintershall, E.ON, N.V. Nederlandse Gasunie, 2005); no regulatory framework to cover transit.	Separation of EU market into 2 parts; securitization of project by bypassed countries; intensification of gas on gas competition in EU market.
Nabucco 2014-2015	On-land pipeline; wide resource base; unconfirmed supplies; uncompleted connectors to upstream; diversified set of consumers.	Initial investment can be affordable for a consortium of stockholders; soundness of delivery price. CAPEX: € 7.9 b	Availability and variation of upstream resources and overall profitability.	Institutionally established (Nabucco Gas Pipeline International GmbH, 2004); regulatory framework created by Intergovernmental agreement among transit countries, Austria, Hungary, Romania, Bulgaria, and Turkey (July 13, 2009); multi entry-exit pipeline system reduces market and security risks; etc.	Increasing competition for access to new reserves; conceivably moderate commercial viability of the project; increased gas on gas competition in EU market.
South Stream 2010	Direct supplies from reliable source; offshore pipeline avoiding transit states; huge potential market in Europe.	Huge investment affordable for a pull of stakeholders; no provisional assessments on price. CAPEX: € 25 b.	Pending feasibility studies; no information on resource base, costs, and environmental impact.	Institutionalised (South Stream AG (Gazprom, ENI), 2008); no regulatory framework on transit, etc. Route approved by Bulgaria, Serbia, Hungary, Greece, Slovenia, and Austria.	Securitisation of pipeline by bypassed countries; conceivably moderate commercial viability of the project; increased gas on gas competition in EU market.

Source: revised version of adopted from Dusseault (2009), p. 31.

[118] Nabucco: The most commercial Southern Corridor gas pipeline project. RWE Supply & Trading GmbH. November 13, 2009.

The Russia-EU gas relations overcome a bilateral scope and are directly influenced by third countries. While some of them act as potential competitors challenging Russia's status as a supplier, the others gain significance over both sides owing to their transit status.

2009 saw Turkey turning into an influential player in the Russia-EU gas affairs. Bidding at becoming a transit hub for Europe-oriented gas flows, Turkey shows "a true exercise of Byzantine diplomacy"[119] sending out mixed signals to both – Russia and the EU - sides.

Despite the Turkish government's decision in 2009 to finally join Nabucco (and the approval by the Turkish parliament a bill on the construction of the Nabucco pipeline on March 4, 2010), the vital talks between Turkey and Azerbaijan did not advance. Apparently, the October 10 2009 Turkey - Armenia Protocols on establishing diplomatic relations and opening their common land border (closed since 1993 in protest over the Yerevan's backing for Karabakh separatists) has added some complexity. The Protocols have not yet been ratified by the parliaments of both countries over two key problems. One has to do with Nagorno-Karabakh conflict, which involves Armenia and Azerbaijan, and in which Turkey has traditionally supported Azerbaijan. Another sensitive issue is Armenia's campaign for gaining international recognition of the massacres of Armenians in 1915 as Genocide, a matter that finds commiseration in the US.[120] Additionally, Turkey is pursuing its own plans to ship gas from Azerbaijan to Greece and Italy, thereby providing a ready-made export route for Azerbaijani gas to Western Europe without the need for Nabucco.

By the same token, the Turkey-Russia discourse affects the Nabucco's prospects. That is to say, on July 13, 2003 Turkey signed an agreement on the construction of Nabucco, but in the Erdogan-Putin agreement of August 6, 2009, Turkey granted access to Russia's South Stream gas pipeline through its part of the Black Sea (in return, Russia pledged to support the Samsun-Ceyhan pipeline to carry Russian oil from the Black Sea to the Mediterranean competing with preferred by the West Baku-Tbilisi-Ceyhan pipeline[121]) and a second Blue Stream pipeline was approved. Russia-Turkey agreements of January 2010 (Turkey's reaffirmed support for the South Stream) and May 2010 (on the construction of Turkey's first nuclear power plant and

[119] Engdahl, William (2010) High-stakes European chess game: Russia's new geopolitical energy calculus. March 30 <http://www.voltairenet.org>
[120] The US House of Representatives Foreign Affairs Committee's March 4, 2010 non-binding resolution calling for the WW I–era killing of Armenians genocide.
[121] This may lead to Russia's abandonment of its Burgas-Alexandroupolis project.

Samsun-Ceyhan pipeline) have further boosted a "new strategic alliance between once-bitter Cold War rivals".[122]

Similarly, by no means Azerbaijan performs an explicit role. Owing to the country's rich resource endowment, it is gaining prominence in the energy affairs of Eurasia and far beyond. Azerbaijan's simultaneous involvements with Russia, Iran, and the EU by definition cannot present a simple case. That is to say, under the deal signed between Gazprom and the State Oil Company of Azerbaijan (SOCAR) on June 29, starting from January 1, 2010 Russia imports 1 bn cm in 2010 (2 bn cm in 2011-2014) paying Azerbaijan $350 per thousand cm of natural gas - the highest price Russia has ever paid for natural gas from the Caucasus or Central Asia.[123] According to the long-term contract, Azerbaijan intends to sell all the gas from Shah Deniz II offshore field to Russia, the very same field the Nabucco hoped to tap on. The agreement between Russia and Azerbaijan sets the stage for future cooperation that would possibly turn Azerbaijan's natural gas exports travelling through Russian territory, thus thwarting Europe's plans to transport Azerbaijan's natural gas via Turkey (or anywhere but Russia). It may well mark Azerbaijan's plans to sell its extra gas into the South Stream. Under such scenario, Georgia who currently buys all its gas from Azerbaijan would be forced to switch back to Russian suppliers. Another blow to the Nabucco was Azerbaijan's early January 2010 decision to supply with gas a neighbouring Iran.

Another development undermining the Nabucco's resource potential came into the light in December 2009. The launch of Turkmenistan-China gas pipeline (the project's more detailed analysis will be given in respective section) has added complication to the overall setting for the Nabucco. Commissioned in 2009 the Turkmenistan-China gas pipeline can also be seen as a development undermining the Nabucco's resource potential. Turkmenistan has lately become known for its rather generous pledges about gas supply. So the country did for the Nabucco. Now, the elapsed Turkmenistan's gas for the Nabucco may well mean that the project will need the Iranian gas. In other words, importance of Iran as a potential Nabucco's supplier grows prominently, which, to put it softly, is rather ironic given the US backing for the Nabucco.

[122] Whitemore, Brian (2010) Moscow visit by Turkish PM underscores new strategic alliance. Radio Liberty/ Radio Free Europe, January 13.
[123] For instance, for gas from Uzbekistan and Turkmenistan Russia pays $300 per 1000 cm.

Transit in Transition

Looking from Russia's perspective, transit dependency certainly aggravates its energy security. The disruptions of supplies to Europe inevitably undermine Russia's reputation as a reliable supplier and eventually trigger the EU's policy for energy imports diversification. Attempting to bypass the transit states, Russia stepped in a 'pipeline rush' promoting the North Stream and South Stream gas projects and the BPS II oil pipeline.

Three countries, namely, Ukraine, Belarus, and Poland play an important – if not a critical - role in Russia's energy relations with Europe.[124]

The 680 km Polish section of the Yamal gas pipeline of 33 bn cm/ y capacity transports Russian gas to Germany and further to Western Europe. It is EuRoPol Gas Transit Gas Pipeline System, a joint venture between Gazprom and the Polish national gas network operator PGNiG founded in 1993, who owns the Polish section of Yamal pipeline. The 2009 situation in EuRoPolGaz can be characterized as a fundamental disagreement about the tariff structure and control over the company. Gazprom demanded control over both. The original intergovernmental agreement of August 25, 1993 on the construction of the gas interconnector, assumed that the transit pipeline would provide only a modest transit income for the joint venture, and, accordingly, some proportion of this tariff income would remain available to PGNiG. At the end of 2009, Gazprom insisted on reducing transit tariffs and operating the company on a non-profit basis. From 2006 on, Gazprom and Gazpromexport contested the previously agreed EuRoPolGaz transit tariff formula paying transportation fees but not the tariffs. Thus, 2006-2009 accumulated overdue payments reached some $350 mn. Aside from the overdue debt, Poland sought some additional gas supply to compensate for the 2.3 bn cm of gas which was contracted from Gazprom's Ukrainian joint venture RosUkrEnergo (claiming at the same time Russia's responsibility to cover $60 mn for the 2009 gas under-delivery).[125] Since the company was eliminated from the market in the course of January 2009 Russian-Ukrainian gas dispute settlement, Poland faced a supply shortage. On January 27, 2010, Russia signed an agreement extending the gas transit through the Polish territory till 2045. The parties agreed that tariffs should bring guaranteed, but not big profit to both - Gazprom and PGNiG – companies. Another

[124] Druzhba oil pipeline traverses Belarus (Northern route) and Ukraine (Southern route). Gas pipelines Brotherhood, Soyuz and Northern Lights pass through Ukraine, Yamal gas pipeline crosses Belarus and Poland.
[125] Polshe ne hvataet rossiiskogo gaza// Kommersant. No. 6 (4306). January 18, 2010 <http://www.kommersant.ru/doc.aspx?DocsID=1305994&print=true>

agreed contract envisioned Russia's annual 10.27 bn cm gas exports to Poland until 2037.

As has been noted, Ukraine plays a major role in transit of Russian gas to Europe. Since the 1990s, and even more so after 2000, Russia has pursued a strategy aimed at obtaining some form of ownership over the transit networks in the FSU. As far as Ukraine is concerned, from 1993 onwards, the bilateral energy relations were largely based on various forms of swaps (infrastructure against the debt, etc.). Through time, Russia has pursued some sort of participation in the Ukrainian network. Eventually, a gas consortium was created in November 2002 as a Ukrainian legal entity where Naftogas and Gasprom shared equal ownership. Originally, and later in 2006, there were attempts to bring Germany into the consortium, but Ukrainian opposition to a project involving larger foreign presence prevailed. Also, similar schemes for Russia's participation in the privatisation of the Ukrainian energy sector were voided by the Ukrainian Parliament.

Positively, Ukraine is no longer seen as entirely a victim of Russia's hard-line energy policy. A number of experiences questioned the fairness of Ukraine's transit policy. It has been particularly pointed that the "[t]reaties are dismissed as soon as they are signed, and daily bargaining among those in office wins the day over the idea of *pacta sunt servanda*…" and recognised that "[t]he EU itself encountered an enormous difficulty of conducting its own long-term energy policy in the circumstances of Ukraine's "a very short-sighted approach … "spot governance", the absence of a rule-of-law culture, official unaccountability…, and a clannish way of running business to the detriment of the common good." [126]

Having suffered a number of supply disruptions, in 2009 the EU multiplied its efforts to prevent any possible losses from those. In order to increase the reliability, efficiency and profitability of the gas transit, curb the environmental footprint, and enhance the supply security, the EU proposed a program for Ukraine's gas transmission system (UGTS) modernization, which contemplates the implementation of a number of projects (at cost of 3 bn euros over seven years). A plan called "UGTS Priority Objects, Modernisation and Reconstruction",[127] presented on March 23, 2009, especially emphasizes the tasks on upgrading and reconstruction of three Western transit corridors (Soyuz, Urengoy-Uzhgorod and Progress), the Southern corridor (Elets-

[126] Nies, Susanne (2009) Ukraine – a Transit Country in Deadlock? Four scenarios. Ifri Programme Energie Paris-Bruxelles. November. pp. 2, 3.
[127] Available here: <http://ec.europa.eu/external_relations/energy/events/eu_ukraine_2009/bekker_en.pdf>

Kremenchuk-Kryvyi Rig, and Ananiiv-Tyraspil-Izmail), two storage sites (Bilche-Volytsko-Ugerske and Bogorodchany), as well as a number of gas measuring stations (Uzhgorod, Berehove, Drozdovychi, Tekovo and Orlivka). The plan includes an extension of the Ukrainian gas network along with increase of its transit capacity of about 60 bn cm – especially via the route Novopskov-Uzhgorod. Initially refused a part in this bilateral - EU and Ukraine - frame, Russia has been later invited to participate in the Ukrainian GTS' modernization.

The EU has indeed emphasised the importance of monitoring gas relations between Russia and Ukraine and intensified efforts in introducing comprehensive preventive measures. On November 16 2009, the Russia-EU Memorandum on Early Warning Mechanism[128] was signed to complement the existing frameworks within the Gas Coordination Group, Oil Supply Group, etc. December 18, 2009 saw the endorsement by the EU Council of Ministers of the Ukraine's joining the Energy Community Treaty,[129] which is expected to additionally improve the EU's energy security.

For Russia, aside from political implications, transit has a rather clear economic dimension – transit fee. From 2010, Gazprom's payment for transit through Ukraine was set to increase substantially. According to the agreements reached at the end of 2009 (before Russia and Ukraine engaged in a new round of gas negotiations following inauguration of President Yanukovich in February 2010), depending on oil price, transit tariff for Russia would increase to $2.8 - $3.0 /1000 cm/ 100 km from $1.7/ 1000 cm/100 km in 2009. This increase would lead to higher expenses for Gazprom (from $2.1 bn in 2009 to well above $3.3 bn in 2010). In turn, before the Russia-Ukraine 2009-2019 gas agreement was revised, Ukraine was to pay Russia between $300 and $310 per 1000 cm of gas (with a 10 per cent discount) in the first quarter of 2010.

The new Russia-Ukraine agreement signed on April 21 2010 Russia-Ukraine agreement altered the previous arrangements for the bilateral gas relations. Russia agreed to a 30 per cent drop in the price (effectively meaning $200-245 per 1000 cm) for 40 bn cm (30 bn cm, in 2010) of natural gas sold annually to Ukraine. The discount is effectively the exports duties exemption and amounts to a $40 bn revenues loss for Russia during the next 10 years. In exchange, Ukraine extended its lease permission for a Russian naval base in the Black Sea port of Sevastopol for 25 years until 2042 (it

[128] Memorandum on an Early Warning Mechanism in the Energy Sector within the Framework of the EU-Russia Energy Dialogue <http://ec.europa.eu/energy/international/bilateral_cooperation/russia/doc/reports/2009_11_16_ewm_signed_en.pdf>
[129] Ukraine and Moldova are to accede to the Energy Community upon amendments of their gas laws. December 18, 2009 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/1974&format=HTML&aged=0&language=EN&guiLanguage=en>

was scheduled to expire in 2017). Albeit this agreement had been called a 'gas-for-fleet' deal, the bet was of a much larger scale. Apparently, the two parties are set to drastically enhance cooperation at various fronts (from joint projects in transport aircraft construction and nuclear power to building a grain terminal on the Black Sea coast). Russia's and Ukraine's interest towards these possibilities seem commercially sound.

On April 30, 2010, in his closing remarks on the Russia-Ukraine official meeting Prime Minister Putin suddenly proposed to merge Gazprom and Naftogaz. The offer took unaware all the participants, but Ukrainian Prime Minister Azarov, Russian Minister of Energy Shamtko and his Ukrainian counterpart Boiko, Gazprom's and Naftogaz's heads Miller and Bakulin reportedly agreed to further discuss the idea. At the time of writing, there was no final official clarification about the parties' positions. Given that Gazprom is a state-owned monopoly and Naftogaz is a 100 per cent state-owned company, looking for commercial reasoning in this or any other bilateral agreement appears misleading. The analysis of Gazprom-Naftogaz proposal is better to be undertaken against the backdrop of bilateral Russia-Ukraine relations.

Attempting to shed some light on the circumstances why the merger was proposed by Russia, it may be assumed that Russia initially had a certain degree of confidence that Ukraine would be willing to consider taking bilateral ties to new heights. Among the motives for such a move is, as some rumours carry, the Russia-Ukraine clandestine negotiation on the settlement of the territorial dispute over the Kerch Strait (a very fresh and indeed very inspiring example for Ukraine is the Russia–Norway April 2010 agreement on demarcation of the disputed zone in the Barents Sea). Another persuasive argument – if not Russia's trump card - is approval received for the South Stream from all the countries involved in the project. Additionally, Austria has even suggested to claim exemptions from EU regulation for this project, presumably, with the aim to ensure the project's commercial feasibility. As President Yanukovich has repeatedly noted, Ukraine is seriously concerned with the prospects of the South Stream's implementation, because the project is openly discussed as a leverage to eliminate Russia's nearly 80 per cent transit dependence on Ukraine for gas exports to Europe. This will certainly be painful for the Ukrainian economy as the transit fee for transporting over 140 bn cm of Russian gas and over 40 mn t of Russian oil composes a considerable addition to the budget, which Ukraine under no circumstances would be willing to lose.

Speaking of economics of the merger, domestically Naftogaz produces some 90 per cent of oil and gas (18.8 bn cm, as of 2009) and two particular aspects could particularly benefit Gazprom's investors. Firstly, Naftogaz has the second largest pipeline network in the FSU and possesses the second largest gas storage facilities of 32 bn cm (worth noting, though, both – pipeline network and storage facilities - require major overhaul). Another aspect – which as of now can be assessed as a plus – is that Naftofaz is a 100 per cent state-owned monopoly, which translates into – again because of the current Russia-Ukraine thaw and until amity is the aim of both countries political leaders – easier (or more predictable) control over the newly proposed company. Of a practical note, Naftogaz demonstrates a rather poor financial performance: its 2009 revenue stood at about $11 bn, while the debt was estimated as of some $4 bn.[130] It is assessed that in case of a merger, Naftogaz could count on some 6 per cent stake in the merged company. On the whole, because of the opening prospects for secured transit, better economics of transit, new business opportunities in both upstream and downstream segments (with the new company's ambitions most likely to stretch beyond the two countries' borders), etc., for the two companies, two countries and the EU the deal appears to deliver more good than harm.

After a period of especially estranged bilateral relations following the Orange Revolution, Russia and Ukraine appear to be seeking reconciliation. The latter seems rather plausible given, for instance, Ukraine's cessation of its course towards NATO membership. Not the least, the two countries business circles' interests tightly interwoven at all times, have definitely been suffering the repercussions of the recent bellicose bilateral political discourse. Currently, a pragmatic thinking steer the partners towards new mutually beneficial undertakings.

On Russia-Belarus transit relations, volume wise it is a significant linkage. That is to say, the pipelines crossing Belarus deliver about 20 per cent of Russian gas and 50 per cent of Russian oil to the EU. Nearly 70 mn t of Russia's oil is taken to Europe through the Druzhba pipeline traversing Belarus. In a way, Belarus is responsible for oil supply of Germany and Poland, which are dependent on Russian oil for 15 per cent and 75 per cent, respectively.

Russia and Belarus have developed "a very specific energy-political" model… This model fitted the immediate political and economic interests of the ruling elites on both

[130] Vedomosti. April 30, 2010 < http://www.vedomosti.ru>

sides... For Russia, it implied huge costs in return for… largely symbolic benefits," 131 meanwhile Belarus has benefited significantly. 132 According to the IMF findings for 2004, for instance, "the preferential prices at which Russia sold energy to Belarus subsidised the latter's economy to the effect of 10 percent of GDP, with 6-7 percent resulting from subsidised gas prices and 3 percent from oil prices".133

Russia-Belarus energy relationship was not always smooth; it saw a number of rows (in 1997, February 2004, and December 2006-Janury 2007). Just like in the case with Ukraine, bilateral energy relations perfectly mirror the political discourse. If throughout the Yeltsin years (1994-1999), the Belarusian president was trying to "build up its own political position in Russia" playing a lost-empire card, starting from 2000 having faced with Russia's new policy, he "began to focus more and more on the independence of Belarus" (a course that has led to a thaw in relations with the EU since 2008), as that, he saw, would be a guarantee of his "personal political survival".134

At the end of 2009, Russia and Belarus yet again had a dissension over energy related matter. The disagreement rose over oil price and customs duties for Russian oil to-be-delivered under a new contract to Belarus via Druzhba pipeline. The previous contract (expired on December 31, 2009) provisioned a reduced (by some 64.4 per cent) rate of customs duties for Russian oil. Since the parties failed to reach a consensus by the beginning of 2010, the supply of petroleum and petroleum products was levied at regular rates. Belarus expressed its utmost discontent with such arrangement pointing out that if anything this undermines the very grounds of the Customs Union which entered into force from January 2010. In fact, Belarus has all along been exporting to Europe oil products manufactured from much of 22 mn t of Russian oil. Albeit Russia has been receiving as much as 75 per cent of export duties from oil products sold abroad by Belarus, the overall scheme still allowed Belarus to maintain the earnings flow at about 1/3 of national GDP.135

For the new contract, Russia reasonably proposes that only oil designated for Belarus' domestic needs would be duty-free (about 6.3 mn t, the remainder of some 1.7 mn t is produced domestically), but Belarus has been reluctant to agree to such novelty in

131 Balmaceda, Margarita (2009) At a crossroads: the Belarusian-Russian energy-political model in crisis/ In Back from the cold? The EU and Belarus in 2009. Challiot Paper No. 119. p. 79, 87.
132 The aftermath of energy partnership with Russia is of dual nature, however. On the one hand, it supported Belarusian economy, on the other - it potentially may aggravate prospects for its further development, as heavily subsidised by Russia energy imports have long allowed Belarusian political leadership to postpone critically essential economic reforms. For more detail see: Balmaceda (2009) p. 80.
133 Balmaceda (2009), p. 82, Gromadzki (2009) p. 96
134 Gromadzki, Gregorz (2009) Belarusian foreign policy – change or continuity? / In Back from the cold? The EU and Belarus in 2009. Challiot Paper No. 119. p. 94.
135 Rubtsov Ivan (2010) "Druzhba" druzhboi, a preferentsii vrozj// Expert No. 3(689) January 25.

principle, and bargained for 30 mn t duty-free supply (on the grounds that the Customs Union provisions guarantee duty free export to Belarus). As a persuasive argument Belarus has chosen to threaten Russia by lifting up a transit fee from current $3.9 /t to $4.5/t.136 Belarus' motivation to keep the contract's major provisions unchanged is rather understandable as the revenues from exporting processed Russian oil have long been an important source of currency, making up around a third of Belarus's export revenue, while Russia's lost profit is estimated at $10 bn annually. 137 It is yet assessed that even the significantly smaller amount of 6.3 mn t of Russian duty-free oil supply would still be equivalent to $1.8 bn subsidies to the Belarusian economy.

In 2001, Belarus unilaterally cancelled a contract that mandated the sharing of these revenues, leading to substantial losses for Transneft and the Russian state budget on the whole. The key issue at negotiation table is Belarus' payment of the import duties for the portion of Russian oil that it resells on the European market. Estimates of this amount to $5 bn a year. Again, Belarus argues that the Russia-Kazakhstan-Belarus Customs Union provides an exemption for the country from any levies on imports from Russia. Besides the Customs Union, Russia and Belarus are tied up by the Russia-Belarus Union State.

Belarus also hosts a transit route for Russian gas. 20 per cent of Russia's Europe-designated gas exports are being sent through the country. In 2007, Europe received some 46.7 bn cm of Russian gas via Belarus, of that amount, 30 bn cm flew through the Yamal-Europe pipeline, another 15.7 bn cm flew through the Beltransgaz transit pipeline. Belarus receives a transit fee of $1.45 per 1,000 cm of Russian gas per 100 km of pipeline in Belarus (and seeks the tariff increase to $1.88). Additionally, Gazprom supplies Belarus with gas for internal consumption (as well as its inefficiency and waste of energy), which, as of 2007, amounted at 22 bn cm/ y. Expectedly, the gas price is discounted (in other words, subsidised by Russia). The June 2010 agreements stipulate gas price for the Belarusian market calculated as follows:

$$P = (EP – EP * T/100 – Tr) * D/100,$$

where:
P – gas price for Belarus;
EP – European market price;
T – export tariff (30 per cent as of 2010);
Tr – transportation costs;
D – discount (10 per cent as of 2010).

[136] Oil.Ru News. January 15,2010 <http://www.oilru.com/news/157165/>
[137] Shishkunova, Elena, and Aglamishjyan, Darjya (2010) Lozhka nefti// Izvestia. January 18.

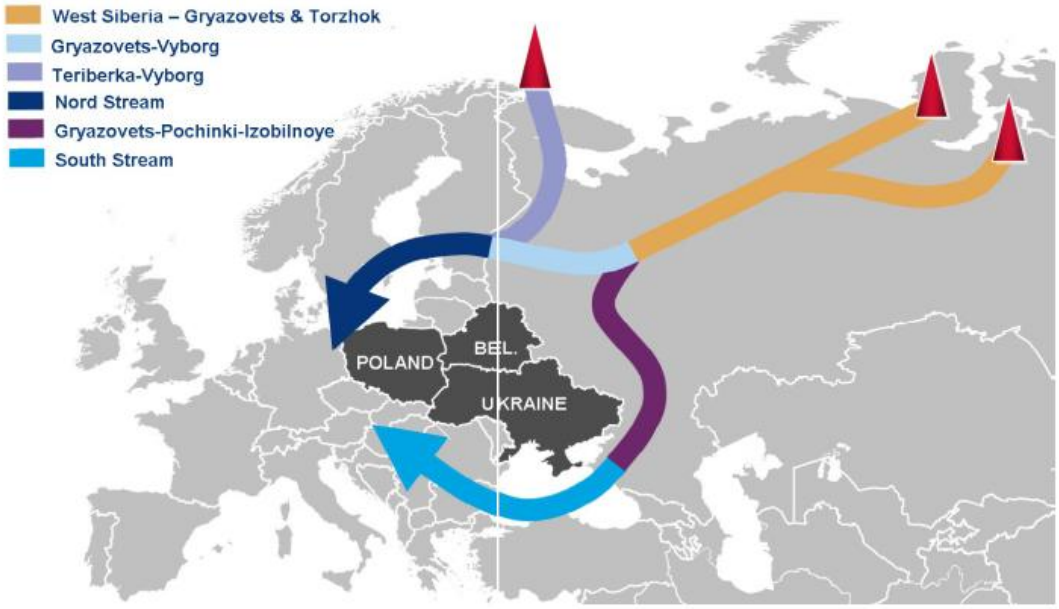
Russian companies are involved in both the oil and gas segments of the Belarusian economy. The possible acquisition of Belarusian refineries Naftan and Polimir (by Rosneft) is currently being negotiated. Gazprom's acquisition of another set of Beltransgaz's shares, which will make its stake 50 per cent, is already decided. Beltransgaz is interested in the expansion of Gazprom's gas transit through the Yamal – Europe pipeline by some 15 mn cm/d and in the construction of a second line of the Yamal – Europe pipeline (at estimated by Belarusian side cost $3 bn).

In the past, nevertheless, the bilateral course has gone far from being heartfelt. Arguably, Russia-Georgia war played its part in Belarus attempt to distance itself from Russia (as it certainly sees itself within the zone of Russia's "privileged interests"). Russia's response was an economic one - in June 2009, Russia instituted a boycott of Belarusian dairy products and amidst the mounting financial crisis, Russia first delayed and then cancelled altogether the final $500 mn tranche of $2 bn loan. Belarus' retaliation was not on the economic front - it boycotted a June 2009 summit of the Collective Security Treaty Organization. Since recently, Belarus started increasingly demonstrate its willingness to become an active party in the EU Eastern Partnership process. The most recent developments of 2010, such as exports of Venezuelan oil (some 4 mn t as planned for 2010, with the perspectives to increase the volumes to up to 12 mnt) for domestic processing, seeking more close contacts with China (receiving $1bn for the implementation of a number of joint projects and a $9 bn loan at no interest rate terms), and finally Lukashenko's gesture of goodwill of granting an asylum to the disgraced Kyrgyz President Bakiev in April 2010, are even more telling illustrations of Belarus' attempts to distance itself from Russia.

Meanwhile, to every transit disease Russia got used to prescribe a bypass cure (see Map 6). For the Belarusian case, in 2009 Russia started the construction of the BTS 2 pipeline from Unecha (near the Russia-Belarus border) to Ust Luga. At a $4 bn cost the BTS II is projected to carry 30 mn t a year with possible extension to 50 mn t/ y. As can be detected from the description of 2010 oil transit skirmish, the complexity is to a large part at Belarus' responsibility. Faced with the ramifications of its current policy, Belarus may well regret its lack of cooperativeness when this option was at the country's disposal, just like Ukraine did. The newly elected Ukrainian President has admitted that in the past Ukraine's Russian policy have been suffering systemic failures and

miscalculations.138 As is known, Ukraine emphasized its Western priorities pursuing the country's accession to the NATO and the EU while relations with Russia were steadily falling off. The near term implications of such short-sighted Ukrainian policy are rather explicit. If attempting to circumvent Ukraine as a transit route for Europe oriented energy flows Russia implements its ambitious Nord Stream and South Stream pipelines, the transit volumes are likely to shrink by some 50-60 bn cm literally meaning that Ukraine with all infrastructure in place "will stay like a dog in the manger".139

Map 6 Bypassing the 'spoilers'.



Source: MacKenzie.

Indeed, transit states, long regarded as hostages of Russia's tough policy in fact, were rather successful actors in a certain segment of the energy export business. The years of oil and gas bonanza made, however, the transit states (just like the exporter herself) less concerned about pursuing a more balanced approach taking into account considerations for the primary (Russia) and final (European importers) consumers interests. Meanwhile, competition in the transit segment itself has been gradually growing. Having realised all the advantages of its location, Turkey, for instance, repeatedly emphasises that it is destined to become a major energy hub. Developments of 2009 revealed Russia's certain interest in closer cooperation with

138 Yanukovich v sluchae izbraniya prezidentom aktiviziruet otnosheniya s Rossiiski Federatsiei. December 25, 2009 <http://rian.com.ua/politics/20091225/78261535.html>; Ukrainskie tyazhelovesy: dva podhoda k Rossii. December 21, 2009 <http://rian.com.ua/analytics/20091221/78258437.html>

139 Viktor Yanukovych, Leader of Regions Party and presidential candidate quoted by RusEnergy. December 21, 2010 < http://www.rusenergy.com/ru/news/news.php?id=48641>

Turkey in a move to eliminate the Ukrainian transit factor.140 Turkey may well be equally interested in enhancing ties with Russia, as the latter satisfies Turkey's 75 per cent of gas and 40 per cent of oil needs.

In its entirety the transit problem rising every now and then between Russia and the FSU seems to occur largely over the disagreement about the mechanisms of sharing the benefits from energy price subsidized by Russia. Arguably, subsidized energy supplies have created a certain type of corruption (nourished by income from the reselling of Russian oil and gas abroad at world prices) in those FSU countries that are involved with the Russian energy transit. It is therefore, no longer the case to analyse Russia's energy relations with both Ukraine and Belarus through the "angels and devils" prism (who is who in this scenario so popular with the western audience is clear). In turn, Russia has been practising energy subsidies to some of the FSU as a dual system of patronage and control. At the end of the day, by all accounts the subsidies did no good for the recipients' economies as they have been discouraging efficiency while propping up uncompetitive Soviet-era industries.

In relations with Europe, transit will always be an element of Russia's energy security. Before commencing a bypassing policy as a means to tackle the transit dependency, it therefore important to weight up accurately the pros and cons of the existing transit routes and assess the actual needs for spinning further a pricey pipeline web.

2.2 Russia and Central Eurasia

"She has acquired merit beyond all others", said lama.
"Umm", said Kim thoughtfully considering the past. "It may be that I have acquired merit also"…

Rudyard Kipling (1995) Kim. London: David Campbell Publishers Ltd. p. 282

Russia's approach towards the CE is perceived either as an attempt to regain the status of a Great Power, or keep other states (first and foremost, China)[141] from getting a solid ground here. The truth lies somewhere in between. Encapsulating Russia's relation into the Great Power game format – even for purely analytical purposes – clashes against reality, wherein the CEs are increasingly pursuing their own strategic goals both on regional and international arena.

[140] Medetsky Anatoly (2009) Putin weights War, US, and 2012// Moscow Times. September 14.
[141] Baev (2008).

The Central Eurasian energy is traditionally analysed upon the *rentier* state concept. [142] However, it is increasingly recognised that a better analytical frame is provided by somewhat new approach where the 'regime - energy industry relationship' is scrutinised bi-focally: as formal (corporatist[143]) and informal (patron-client[144]) mechanism of control. Such a mechanism, according to recent studies on the Central Asian energy sector governance, is replacing the Soviet-era and early post-Soviet years dominant system of *zhuz*, tribe, and clan.[145] It is also argued that the 'energy sector – regime' relationship reflects the domestic political developments and at the same time affects the country's politics.[146]

Recent developments in energy sector, not exclusively in oil and gas but also uranium, have demonstrated that Russia is not standing guard over the CEs' natural resources. In contrast, a new pattern of cooperation seems to be emerging, a format when the parties make their choices upon weighing up the pros and cons of their decisions.

Energy in Central Eurasia: Potential and Conditions for Cooperation

Tellingly, as recently as in 2005, a chapter on the future of Eurasian transportation in a comprehensive volume on energy and security issues[147] did not single out Turkmenistan as an energy producer of prominence. With regard to this locus, the prospects were seen as originating in Kazakhstan and Azerbaijan. A 2009 work, however, highlights Turkmenistan's rise as the most astonishing shift in the contemporary CE affairs "No country has risen to prominence with greater rapidity and less fanfare in recent years than Turkmenistan. Once Central Asia's most isolated backwater, the former Soviet satellite, host to enormous oil and gas riches and perhaps the region's most critical strategic perch, has redefined itself as the centerpiece of a new regional order, having become the most critical prize in a new "great game."[148]

In Central Eurasia, Kazakhstan possesses significant oil resources, Turkmenistan has by all accounts remarkable gas reserves, while Azerbaijan is endowed somewhat evenly by oil and gas (refer to Table 27).

[142] Ostrowski (2010), p. 4.
[143] Describes a type of relationship consisted of vertical articulation between classes, and linkages with the regime (Unger and Chan, 1995).
[144] Implies a dyadic relationship based upon informally arranged personal exchanges of resources between actors of unequal status. The basic idea is a personalized and reciprocal relationship between an inferior and a superior (Grindle, 1977).
[145] See: Schatz, 2004; and Hoffman, 2000.
[146] Ostrowski (2010), p. 3.
[147] Kalicki, Jan H. and Elkind, Jonathan (2005) Eurasian transportation futures in Energy and security: Toward a new foreign policy strategy (2005)/ Ed. by Jan Kalicki and David L.Goldwyn: Woodrow Wilson Center, Washington, The John Hopkins University Press, Baltimore. pp 149 – 174..
[148] Miller, Leland R. (2009) A New Great Game In Turkmenistan <http://online.wsj.com/article/BT-CO-20091016-713905.html>

Table 27 Central Eurasian states oil and gas proved reserves.

	Oil		Gas	
	Proved reserves, bn t	Share to world's, %	Proved reserves, tn cm	Share to world's, %
Kazakhstan	5.3	3.2	64.4	1.0
Turkmenistan	0.1	*	280.6	4.3
Uzbekistan	0.1	*	55.8	0.9
Azerbaijan	1.0	0.6	42.3	0.6

Source: BP Statistical Review of World Energy. 2009.

Nowadays, virtually every major actor has a certain share of interest in the CE energy affairs. Energy relations with the CEs are pivotal to Russia on two principal considerations. Firstly, in Central Eurasia Russia expands various forms of energy cooperation in different segments (oil, gas, power sector, etc.). Another aspect, albeit of somewhat diminishing significance, is informed by the fact that this very cooperation helps Russia fulfil its exports commitments before Europe. Nevertheless, because the CE region attracts considerable attention as one of the most vibrant loci on the contemporary global energy map and the countries increasingly formulate their own ambitions, it is no longer entirely correct to assess the Russia-CE relations in a zero-sum format, where Russia "maintains its political influence on Central Asia and gains economic benefits from the transportation of the Central Asian energy export"[149].

Russia has traditionally been involved in a large-scale energy cooperation with CEs; first, as with republics of the FSU, later on as with staunch allies. In the wake of the FSU demise, the CEs were pursuing different policies, but given the economic hardships the countries faced with, the development of natural resources has become a priority to all the CEs. If initially Russia had been a major partner and a mediator in the CEs' energy contacts, in the second half of decade the CEs have started gradually master their more independent lines.

In the circumstances of an exceptionally favourable conjuncture of the energy market, the CEs embarked on a revision of their energy policies treading into the steps of other energy-rich economies. In so doing, the CEs staked at the geographical diversification of their energy ties as one of their principal policy aims. Kazakhstan, for instance, has declared a 'multivectoral' policy, which analogically to the Russian principle means the

[149] Marketos (2009), p. 23.

development and further improvement of strategic, diplomatic and economic relations with the major geopolitical powers in the international arena.[150]

It is not exactly true that this diversification move has taken Russia by surprise, but it forced Russia to make adjustments to its own course. After a period of uncertainty and various in style tactics probed, Russia has managed to renovate the grounds for energy cooperation with CEs to somewhat mutual satisfaction. It is safe to note that energy cooperation between Russia and CEs is largely a product of the shared interests of the national political elites. There is an explicit willingness of the national governments to maintain a certain degree of coordination in the sector. Russia has apparently managed to remain a significant player in the CE energy sector. One of the factors that possibly played towards this is Russia's distinctiveness from Western countries whereby Russia "…does not link its assistance to political conditions", and the Central Asian regimes are particularly "appreciative of this". In a sense, Russia has played a crucial role in the Central Asian state building by promoting a post-Soviet mode of governance that could be defined as authoritarian."[151] The 2008 power transfer in Russia was met positively by the CEs and "Russia has once more become the primary political model for Central Asian regimes, which are attracted neither to Western parliamentary systems nor to Chinese monopartyism."[152]

Nonetheless, the reality in Central Eurasia is that Russia is increasingly confronted with the need to move away from the unilateral leadership model prevalent through the 1990s and in the early Putin's presidency, and to accept power-sharing with rising regional powers (Kazakhstan and Turkmenistan, in particular) and with other powerful external players in the region[153] as a new *modus vivendi*. In this context, one of the remarkable shifts is that Russia attaches increasing importance to such regional organizations as the Collective Security Treaty Organization (CSTO), Eurasian Economic Community (EURASEC) and the Shanghai Cooperation Organization (SCO).

The SCO, to which China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan are members, and India, Pakistan, Iran, and Mongolia are observers, is one of the organizational pillars of Russia's energy relations with the CEs. Albeit no official agreement has been concluded following Kazakhstan's proposal to form a single SCO

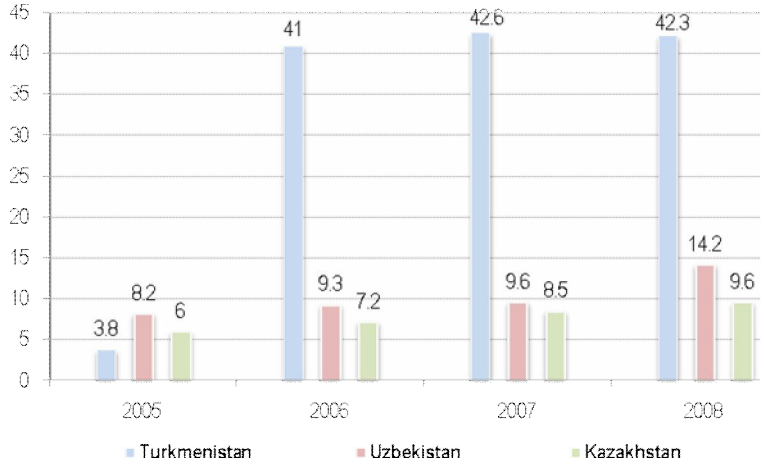
[150] Shadrina (2009).
[151] Laruelle, Marlene (2009) Russia in Central Asia: Old History, New Challenges? EUCAM. Working Paper 03. September. p. 5.
[152] Ibid.
[153] Marketos (2009). p. 31.

energy market based on the existing pipeline system linking Russia, Central Asia and China (at the SCO October 2008 Summit), the idea was received optimistically and agreed for further elaboration. This may promise a further development of energy cooperation among the respective countries in a somewhat new scope.

Russia's presence in the Central Asian energy sector has been recuperating from decline following the USSR's demise. In the early post-Soviet period, the trend of Russia – Central Asia energy cooperation was negative. That is to say, if in 1990 Uzbekistan's export to Russia was 10.8 bn cm, in 2003 it declined sharply to slightly over 1 bn cm. Likewise, Turkmenistan, whose exports from 54.3 bn cm in 1990 slid to 5.2 bn cm in 2003.[154]

Initially, Russia's activities were concentrated in Kazakhstan, but around 2000 Gazprom also began to make inroads into Uzbekistan and Turkmenistan, and since 2005, into Kyrgyzstan and Tajikistan as well. Since 2004, Russia's energy cooperation with CAs has been reviving. Numerically, Gazprom's purchases peaked in 2008 amounting to 66 bn cm. The key driving force for this expansion was Russia's changed geopolitical priorities with higher significance attached to expansion of relations with Central Asian states. That is to say, with the backing of intergovernmental agreements from Uzbekistan, in 2004, for instance, Gazprom imported 7 bn cm in 2005, in 2006 – 6 bn cm, 2007 – 10.5 bn cm, and in 2008 – 13.8 bn cm (refer to Graph 16). Conceivably, imports in 2009 are slightly over 13 bn cm, which is less than the expected 16 bn cm.

Graph 16 Gazprom's gas purchases from Central Asia, bn cm.



Source: composed on Gazprom's data.

[154] Paramonov, V., Strokov A., and Stolpovsky O. (2009) Proekty po osvoeniyu mestorojdenii v Tsentraljnoi Azii <http://ia-centr.ru>

A rise in Turkmenistan's exports to Russia has been ended by April 2009 explosion on Central Asia – Center 4 pipeline, followed by the suspension of gas procurements. The disruption itself has happened with Russia's partial responsibility for it. Faced with much smaller European demand and suffering financial losses, Gazprom found itself in a very disadvantageous position. With the official explanation being that blast was a result of increased pressure, which aged Soviet-era built pipeline system technically could not resist, Russia nevertheless has shown no readiness to undertake repair works. Imports from Turkmenistan have been halted for the rest of 2009. The two countries nevertheless reached an agreement to resume gas deliveries[155] of up to 30 bn cm in 2010. On the other hand, Gazprom's plan for 2010 indicates the increasing imports from Uzbekistan (15.5 bn cm) and Kazakhstan (17.2 bn cm), but only a modest procurements of some 10 bn cm are envisaged from Turkmenistan.

Russia has long played a structuring role in the development of the CAs' hydrocarbon trade. Being in a sense a transit state, Russia nevertheless has acted as a re-exporter (strictly speaking, even as an exporter) taking advantage of the Soviet-era energy transport infrastructure. It however became clear that Russia can no longer control neither flows nor prices of the Central Asian gas and oil. Increasingly diversified CAs' energy relations - above all, thanks to expanded ties with China, but also with Iran (gas from Turkmenistan and Azerbaijan) and Europe (oil from Kazakhstan via Baku-Tbilisi-Ceyhan pipeline) – strip Russia of its dominance.

To be objective, Russia's status in Central Asia does not rest solely in the realm of global geopolitical redistributions; it also depends upon domestic factors. As part of a broader context, the current demographic crisis in the eastern part of Russia and a fundamental refocusing of Russia's domestic regional policy inform a shift that will inevitably affect Russia's presence in Central Asia.

CEs' Independent Pipelines: Implications for Russia

Central Eurasian countries have significant potential for boosting their energy exports. In this light, it is only natural that these states are increasingly engaging into export diversification. Kazakhstan, the largest possessor of proven oil reserves in the Caspian region, increases its oil exports using the existing infrastructure via the Black Sea (through Russia), the Persian Gulf (through swaps in Iran), the pipeline and rail network

[155] To be priced upon a European formula and estimated at no less than $195/ cm.

in the north (through Russia) and directly to eastern China, and plans to further develop its own export infrastructure. But it is Turkmenistan, as by far the largest possessor of natural gas in the CE (refer to Table 28) and active promoter of its own diversification policy, who is apparently shaping the trends.

Table 28 Central Eurasian gas export potential.

State	Export 2009, bn cm	Export potential, bn cm	Major fields
Turkmenistan	50 (?)	110-115	South Yolotan up to 14 trn cm; 15-20 bn cm offshore
Uzbekistan	15	40-45	15 bn cm Lukoil Overseas and 10-15 bn cm Karshi
Kazakhstan	11	32	Kashagan, Tengiz, Karachaganak
Azerbaijan	8	15-20	Shah-Deniz

Source: composed by the author.

Domestic estimates on Turkmenistan's reserves differ considerably from those by the international agencies (BP's, for instance). Turkmenistan claims possessing reserves of some 20.8 bn t of oil and 24.6 tn cm of natural gas and a ranking among the world's top five oil and gas rich countries. [156] Based on that, Turkmenistan is pursuing the tasks of development of its energy potential in the most efficient way. While doing so, the state focuses on both the development of the abundant natural resources on the right bank of the Amu Darya River and diversification of energy export.

The beginning of 2009 was particularly tough for Turkmenistan. Because of the catastrophic collapse of exports, gas production declined to 38 bn cm from 70.5 bn cm in 2008. Russia, as noted earlier, also played a negative part in it. If in 2008 Russia purchased 47 bn cm, in 2009 it acquired only 11.3 bn cm. To the East European Gas Analysis' estimates, Turkmenistan's losses in 2009 were around $7-10 bn, or about a quarter of its annual GDP. Classically, Turkmenistan's loss turned into Russia's gain. Namely, through the increased exports of its own natural gas Russia's additional budget revenues are estimated at $2.5 bn, and Gazprom's additional revenue is believed to be of $6 bn.

On the other hand, 2009 was a remarkable year from the standpoint of concrete achievements in the country's energy policy. Amidst the world economic crisis, Turkmenistan has significantly enhanced its status in the world energy affairs. The

[156] Turkmenistan begins commercial development of largest gas field. December 30, 2009. State News Agency of Turkmenistan (TDH) <http://www.turkmenistan.gov.tm/_en/?idr=5&id=091230a>

country expanded energy export routes and set forth a number of new projects ensuring the future of its international energy cooperation.

While implementing its external energy policy, Turkmenistan, follows a pragmatic approach. It was towards fulfilling this primary course that numerous initiatives were put forward by the Turkmen President at the international and national levels. These include the Resolution of the UN General Assembly on the Reliable and Stable Transit of Energy and Its Role in Ensuring Sustainable Development and International Cooperation adopted December 2009 on Turkmenistan's initiative. In April 2009, Turkmenistan hosted the international energy conference under the UN auspices concerned with searching and elaborating a unified approach to the functioning of the global energy infrastructure. Furthermore, addressing the 64th session of the UN General Assembly in the United States in September 2009, the Turkmenistan President suggested establishing an expert group, which would develop the international legal instrument for energy transit through considering the proposals put forward by the interested countries and international organisations. Domestically, the interagency working group for energy diplomacy was established in Turkmenistan in April 2009.

However it was December 14, 2009 when Turkmenistan's modern energy policy saw its authentic climax. On this - widely regarded as historic and signalling a new era of independent entry of Turkmenistan into the global gas arena – date, the largest pipeline – the Trans Asian gas pipeline – was put into operation to connect Turkmenistan with China through Uzbekistan and Kazakhstan (TUKC gas pipeline). At the launch of a new export route, the Turkmenistan President emphasized that significance of the Trans Asian gas pipeline goes beyond the scope of a merely advantageous economic and commercial project, rather it is an achievement convincing that the interests of all and each players of the energy triad – producers, transit countries and consumers – were balanced through political will and constructive approach.[157]

The ramifications of the TUKC gas pipeline launch, as a renowned expert observed, are that "The event sends strong messages for regional security. Within the space of three weeks, Turkmenistan has committed its entire gas exports to China, Russia, and Iran. It has no urgent need of the pipelines that the United States and the European

[157] New markets and long-term partnership in Turkmenistan's energy policy. December 30, 2009. State News Agency of Turkmenistan (TDH) <http://www.turkmenistan.gov.tm/_en/?idr=2&id=091230a>

Union have been advancing." And even more dramatically, he adds, "The United States' pipeline diplomacy in the Caspian has been checkmated by its competitors without, incidentally, the aggression and bloodshed that the US has resorted to in just trying to secure the corridors. If the future of energy is not oil but gas, then the control of the Middle East could well be tied to that of the Caspian Sea Basin".[158]

Another important step towards implementation of Turkmenistan's energy strategy was a launch of development of Turkmenistan's largest South Yolotan gas field on December 29, 2009. A number of agreements of $9.7 bn worth were concluded between Turkmengaz State Concern and Gulf Oil & Gas Fze (UAE), Petrofac International LLC (UAE), CNPC Chuanging Drilling Engineering Company Limited (PRC) and the consortium of LG International Corp. and Hyundai Engineering Co. Ltd. As for the specific fields of cooperation, Gulf Oil & Gas Fze is to design and construct underground facilities including field wells in South Yolotan field that will ensure annual production of 20 bn cm. The same works – design, drilling of wells and construction of surface field facilities - ensuring annual production of 10 bn cm are to be performed by CNPC Chuanging Drilling Engineering Company Ltd. Petrofac International LLC will design and build the gas desulfurization unit with the capacity of 10 bn cm of tank gas a year and surface field facilities with the annual capacity of 20 bn cm. Korean companies LG International Corp. and Hyundai Engineering Co. Ltd will construct the gas desulphurization plant of 10 bn cm annual capacity.

Also, on January 6, 2010 Turkmenistan put into operation the second pipeline to Iran - the Dovletabat-Sarahs-Hangeran gas pipeline. Reportedly, Turkmenistan sees this new export route as critically important for further development of gas cooperation along the policy of diversification of gas pipeline infrastructure and 'multivariant' energy exports.[159]

Under these circumstances, the joint plan of Russia, Turkmenistan and Kazakhstan to build a new gas pipeline circumventing the Caspian Sea is now in doubt. The two CA countries have earlier pledged to provide the Caspian Gas pipeline with up to 20 bn cm of gas a year by 2009-2010. However, their significantly increased engagements with many large-scale pipeline projects simultaneously cast doubt over the Caspian region countries' ability to live up to their export commitments.

[158] Bhadrakumar, M. K. (2010) Pipeline Geopolitics Major Turnaround: Russia, China, Iran Redraw Energy Map. January 16 <http://www.voltairenet.org/article163566.html#article163566>
[159] New energy bridge – landmark in history of Turkmen-Iranian partnership. January 7, 2010. State News Agency of Turkmenistan (TDH) <http://www.turkmenistan.gov.tm/_en/?idr=4&id=100107a>

Map 7 'Great Energy Game' of Eurasia.

Source: Bhadrakumar, M. K. (2010) Pipeline Geopolitics Major Turnaround: Russia, China, Iran Redraw Energy Map. January 16 <http://www.voltairenet.org/article163566.html#article163566>

Notes:

_____ existing PP; ------- proposed PP.

1 Kazakhstan - Russia OPP; 2 Kazakhstan – China OPP; 3 South Stream; 4 ESPO; 5 Blue Stream; 6 Russia-Europe; 7 Caspian Coastal; 8 Turkmenistan- China; 9 Dauletabad – Khaniran; 10 North Stream.

Tellingly, Turkmenistan's location and resources' endowment provide a variety of choices for the export diversification to Iran, China, Pakistan, India, etc. (refer to Table 29).

Table 29 Turkmenistan export alternatives.

Pipeline	Capacity, bn cm	Terms
to China	up to 40	start operation 2010; 100% financing by China
via Russia westward	42.5+30	current volume + Caspian (expansion CAC-3)
by-passing Russia to EU	up to 31 +	Nabucco etc; connection either via Trans-Caspian[160] or via Iran
to Iran	up to 14	current export – 8 bn cm
to India-Pakistan via Afghanistan	up to 20	highly speculative due to high transit risks & political instability

Source: composed by the author.

Not only the new routes assure a more independent status of Turkmenistan as an energy supplier, but they considerably solidify its geo-political status turning Turkmenistan indeed into "… the fulcrum of key US security, economic, and political

[160] The idea of a Trans-Caspian gas pipeline was proposed in 1996, but the project was abandoned due largely to Russian political opposition, as well as the unresolved status of the Caspian littoral state's offshore boundaries, and Azerbaijan's desire to ensure the viability of its own gas export project to Turkey ahead of any project to export competing Turkmen gas. The project was revived in December 2008 when two Nabucco shareholders, OMV and RWE, established the Caspian Energy Company to assess options for building the Trans-Caspian pipeline. The obstacles facing the project remain largely unchanged. The delineation of the Caspian Sea and the rights to several key hydrocarbon fields remain in dispute between Turkmenistan and Azerbaijan. Also, any Trans-Caspian link through Azerbaijan needs to be compatible with Azerbaijan's objectives regarding its gas exports to Europe, in particular, from Shah Deniz field.

interests."[161] It should only be expected that increasingly confident of its advantages Turkmenistan will move further with the implementation of its own preferences prioritising them ahead of any of the previously agreed deals, be they concluded with Russia, other CEs or Europe.

Until very recently, around two-thirds of Turkmenistan's gas was sold to Gazprom via the Central Asia Centre Pipeline (CACP). However the scope of Turkmenistan's gas export to Russia stands to become much more modest. Following shortly after the TUKC pipeline launch, the Russian President's visit to Turkmenistan has resulted in the agreement to resume export of Turkmenistan's gas to Russia starting from January 2010. Volume wise, the parties identified a level of 30 bn cm of gas to be supplied annually, and the price terms were defined as pegged against the European market formula.[162] Reportedly, the Russia – Azerbaijan's 2010 agreement about 1 bn cm (2 bn cm from 2011) purchase of gas, is Russia's attempt to partially compensate for smaller gas deliveries from Turkmenistan. In fact, Russia's recent arrangements with the CEs appear to be more the parts of a new format for energy cooperation in the region. Russia has yet managed to keep strong energy ties with the CEs through giving the latter some room for manoeuvre in the Asian markets (China, Iran, India, Pakistan, etc.), but preserved for itself the lucrative European market.

Summing up, "…despite … growing interdependence and the spread of the insistent logic of the markets across Asia, strategic competition is growing among Asia's emerging great powers and with the United States" and energy security considerations play a central role in forming geopolitical trends unfolding here. [163] Objectively, Russia is but one actor of the 'Great Energy Game' ongoing in Central Eurasia. Pursuing its pragmatic aims, Russia has chosen to secure its role in the CE space by optimising the terms of existing deals and compromising on new agreements to retain its dominant position in the European market by overhauling relations with both the transit states and consumers, and, as the following section reveals, to actualise a new geographic dimension by establishing more solid grounds for energy ties with Northeast Asia.

[161] The characteristic given by Deputy assistant secretary of state for South and Central Asian affairs George Krol at the US Senate Foreign Relations Subcommittee special hearing on Central Asia on December 15, 2009.
[162] Turkmenia vozobnovit postavki gaza v yanvare// Kommersant. December 22, 2009 <http://www.kommersant.ru/doc.aspx?DocsID=1297210>
[163] Energy security in Asia (2007)/ Ed. by Michael Wesley. London and New York: Routledge. p.1.

2.3 Russia in Northeast Asia

"To survive economically, East Siberia and the Far East will have to play a much larger role on Asian energy markets… Russia's interest in developing its east is so vital to its efforts to preserve the territorial integrity of the country that it will have an interest in working with foreign partners ["China, Japan, South Korea, and even the US"] to overcome the enormous obstacles to development in the region."

Nina Poussenkova/ in Russian energy power and foreign relations. London and New York: Routledge, 2009. p. 152.

Before addressing the Northeast Asian context, a definitional issue needs to be clarified. There is no agreed vision on the geographical contour of Northeast Asia (NEA). In most instances, in its entirety, the NEA encompasses the People's Republic of China, Japan, the Democratic Republic of Korea, the Republic of Korea, Mongolia and the Russian Federation. In this current work, Russia's energy relations are analysed with three NEAs, namely, China, Japan, and Korea.

Russia's energy cooperation with NEA dates back to the outset of XXth century. After reaching an agreement with the Soviet government on oil concession for North Sakhalin, Japan founded the North Sakhalin Oil Corporation in 1926. In the post-WW II period, Soviet-Japanese energy oil cooperation resumed in 1959, but remained of a rather small scale. From 1973 onwards, following the China-US rapprochement, Japan started importing Chinese oil, which at the peak year of 1987 covered up to 8 per cent of Japan`s total oil imports.[164] In addition, during the 1970s energy cooperation between the USSR and Japan was re-activated largely owing to the framework of 'general agreements'. This scheme enabled, for instance, the development of Yakutia's coal deposits and Sakhalin's oil and gas resources with the financial backing of the Japanese Eximbank.

Coincidentally, starting from 1990s, Japan`s energy cooperation with both China and Russia has deteriorated. In the Sino-Japanese case, this was caused partly by deepening political distrust between the two nations, but also by increasing competition for energy supplies given China's growing domestic energy demand and the country's eventual transformation into a net oil, gas and coal importer. The Russo-Japanese energy relations have been worsening over two principal reasons. After Russia embarked on market reforms, schemes established in Soviet times and insured by the communist government`s guarantees became obsolete, while adequate substituting mechanisms were largely missing, especially at the initial stage of transition. Another

[164] Xuanli, Liao (2007) The petroleum factor in Sino–Japanese relations: beyond energy cooperation// International Relations of the Asia-Pacific. Volume 7. No. 1. p. 8.

major impediment is the yet unsettled territorial dispute, which keeps deterring the two nations from engaging into full-fledged cooperation. The Northern Territories issue (*hoppou ryoudo mondai)* in the Japanese interpretation or the Kuril Islands dispute *(спор о принадлежности Курильских островов)* in Russian, is by no means new, but the Russian pledge to resolve the issue made by then President Yeltsin followed by a long period with no signs of political will to return to the negotiations did little for the improvement of the bilateral ties.

Russia's relations with the NEA countries have seen its ups and downs and yet develop at different tempo. A 'triple shocks' framework, suggested by a Korean expert, seems to be helpful in identifying the main currents that have steered Russia towards the NEAs. "The "triple shocks" – the end of the Cold War, the 1997 Asian financial crisis,[165] and the 9/11 terrorist attacks – each played a role in pushing forward … Russian evolution from neofeudal governance[166] and a strategy of disengagement to neoabsolutist governance and a more neomercantilist strategy".[167]

Indeed, albeit President Yeltsin is credited with reaching a strategic partnership with China and a rapprochement in bilateral relations with Japan, and especially Korea, there was no clear policy – not even the elements of such – with regard to NEA region. Foreign Minister Primakov, who replaced an advocate of Russia's pro-Western orientation Kozyrev in 1996 emphasised Russia's unique Eurasian identity as well as the anti-hegemonic notion of multipolarity in world politics. Nevertheless, the neofeudal system resulted in the weakness of the central government throughout the Yeltsin presidency, and constrained Russia's greater involvement with NEA. The 1998 financial crisis and 9/11 catalysed the formation of a "neoabsolutist domestic governance", which in turn speeded up the formulation of a new pattern of foreign policy towards the NEA. Most tellingly, this pragmatic neomercantilism has revealed itself in energy sector.

'Sino-American Rocker' vis-à-vis 'Loose Hands'

To remove the reader's bewilderment, this section's headline denotes two conceptions competing in the early 2000s. The choice in favour of the latter has informed the further discourse of Russia's contemporary foreign energy policy. The 'rocker' was planned by

[165] Albeit further in his work the author speaks entirely about aftermath of the Russian 1998 financial crisis, which makes more sense in the given theme.
[166] This refers to federal system which emerged after the demise of the USSR with its centre - periphery relations.
[167] Northeast Asia. Ripe for integration? (2008)/ Ed. by Vinol K.Aggarwal, Min Gyo Koo, Seungjoo Lee, Chung-in Moon. Berlin: Spinger-Verlag. p.180.

private companies (more concretely, Yukos, Lukoil, TNK, and Sibneft), and 'ideologically' was inspired by Mikhail Khodorkovsky. Had this grand plan been implemented, the geography (and geopolitics) of Russia's energy relations would have been significantly entrenched along two arches – Chinese (with the pivot being Angarsk – Daqing oil pipeline) and American (Western Siberia – Murmansk oil pipeline) with a major role being played in the sector by private business.

Leaving aside the details explaining Khodorkovsky's vision and characterising currents and undercurrents within both domestic and foreign policy streams at that time, we stick to the fact – the 'Shino-American rocker' lapsed into then President Putin's 'loose hands'. In a more formal language, the choice was been made to master Russia's external energy policy through the means of active government's involvement. Shortly, Yukos came into non-existence – its principal assets were sold off to meet alleged tax debts. Yukos' main oil production subsidiary – Yuganskneftegaz – was sold at a state-run auction to some previously unheard company Baikal Finans Group, the sole bidder, for $9.4 bn, about half its market value according to western industry specialists. Soon after, that group sold the unit to Rosneft.[168]

The geographical priority of Russia's energy policy in NEA has initially been set on China solely (Angarsk – Daqin oil pipeline), but a suddenly waked up Japan changed this scenario. It is now admitted that is was Japan who through the pledges to allocate sizable amounts of investment in energy and transport, as well as in social infrastructure in East Siberia and the Far East[169] managed to convince the Russian government not to play the 'Chinese card' only, but to make a decision opening perspectives for engaging with the broader Asia Pacific Rim.[170] Apparently, shifts in Japan's and later on, Korea's energy imports policies envisaging the involvement of Russian resources, played towards Russia's decision to set about the development of the resource base in the Russian East. The choice was made with full comprehension

[168] It subsequently was revealed that Baikal Finans was a group of Kremlin insiders headed by Igor Sechin, Deputy Head of the Presidential Administration and close associate of then President Putin. Sechin has been Chairman of Rosneft's board of directors since July 2004. The de-facto nationalization of Yuganskneftegaz was declared "the fraud of the year" by Andrei Illarionov, President Putin's chief economic advisor// <http://www.mosnews.com/money/2004//12/28//illarionov.shtml>

[169] East Siberia (federal subjects of the *Siberian Federal District:* Krasnoyarsk Krai, Irkutsk Oblast, Buryat Republic, and Zabaikalsky Krai), and the Far East (federal subjects of the *Far Eastern Federal District*: Amur Oblast, Jewish Autonomous Oblast, Kamchatka Krai, Magadan Oblast, Primorsky Krai, Sakha Republic, Sakhalin Oblast, Khabarovsk Krai, Chukotka Autonomous Okrug).

[170] For more detail see: Shadrina, Elena (2004) Energy cooperation in Northeast Asia. JIIA Fellowship Occasional Paper 27.- Tokyo: The Japan Institute of International Affairs <http://www2.jiia.or.jp/pdf/russia_centre/h15_cis/12.pdf>, and Shadrina, Elena (2004) Is Pacific oil pipeline to breathe new life into Far Eastern economy?/ In 平成１５年度外務省委託研究報告書．ロシアＣＩＳの資源戦略調査。平成１６年３月。財団法人日本国際問題研究(Report on the year 2004 study on Russia and CIS countries` Resource Strategy. Ministry of Foreign Affairs: Japan Institute of International Affairs. March 2005).

that "… venture … necessarily must be made on a grand scale. Once launched, it would be very costly to reverse or even to delay."[171]

A policy emphasis on the expansion of energy cooperation with Asian countries, named 'Asian vector', was proclaimed in 2003 in the Energy Strategy until 2020. It was initiated in order to reduce Russia`s over-dependence on the European market, minimize risks associated with transit through the territories of third countries, and, not the least, enhance the economic development of Russia's eastern regions. The Russian government considered "[p]enetration into the energy markets of the Asia-Pacific countries- particularly to the energy markets of Japan, China, and Korea" as a unique opportunity not only to boost up the economy of East Siberia and the Far East, but also "as the key tool for positioning Russia in the strategically important region".[172]

To meet these ambitious goals in the East, the government has approved a range of sector- and region-specific strategic initiatives, among such are: the Program on refining industry development in the East of Russia to 2015; the Program on long-term development of energy sector in Eastern Siberia and Far East to 2020; the Development Program for the Integrated Gas Production, Transportation and Supply System with due regard of possible exports to China and Asia-Pacific markets (the Eastern Gas Program)[173]; the Federal Program on Economic and Social Development of the Far East and Trans Baikal Region until 2013 and Strategy for Economic and Social Development of the Far East, Buryatia Republic, Irkutskaya Oblast and Chitinskaya Oblast until 2025.

Russia's Oil and Gas Relations with NEAs

The NEA countries are distinguished by their profound dependency on energy imports and especially high vulnerability against the Middle Eastern supplies (refer to Table 30).

[171] Gaddy et al. (2009) p. 4.
[172] Saneev, Boris (2003) Energy Perspective of the Russian Far East/ In The New Wave in NEA: Energy and Electricity Business in the 21st Century/ Ed. by Yoon Hyung Kim, Mitsuho Uchida. Tokyo: Keio University Press. p.106.
[173] Program of Creating in East Siberia and the Far East a Single System of Gas Production, Transportation and Supplies with Due Account for Possible Gas Exports to China and other Asia-Pacific Countries (2007). Approved by the government on June 15, 2007, by the Ministry of Industry and Energy on September 3, 2007, Order # 340.

Table 30 Energy security indices for NEAs, %

Country	Primary energy demand average growth rate	Net import oil dependency		Dependency on the Middle Eastern oil		Net import energy dependency		
	2006-2030	2009	2030	1994	2008	1980	2002	2030
China	3.7	51.3	77	18.9	42.2	-3	0	18
Korea	2.0	100	100	63.9	82.2	77	84	77
Japan	0.5	99.7	100	67.3	88	88	82	78
Russia	0.7	0	0	0	0	- 42	- 72	- 67

Source: Hoesung Lee, Energy Security: Risk & Opportunity// SPEC 2003. Cooperation between the world oil and gas producing countries and Asian consuming countries. Tokyo. February 12-13, 2002; Hiroyuki Ishida, Energy Strategies in China and India and Major Countries Views. IEEJ: March 2007 (accessed on <http://eneken.ieej.or.jp>); APEC Energy Demand and Supply Outlook 2030. Pp. 22-27; 39-43; 44-48; 79-84; A Quest for Energy Security in the 21st Century: Resources and Constraints. APERC. 2007 <www.ieej.or.jp/aperc>

The NEA's energy profile is further complicated by the fact that NEA-3 are among the world's largest energy consumers (refer to Table 31).

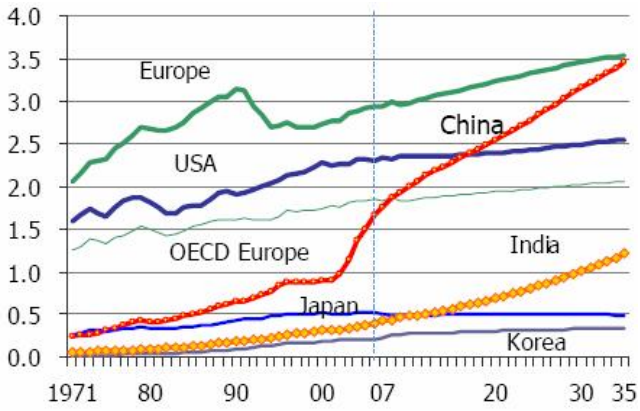
Table 31 World's largest importers, No. in ranking

Country	Oil	LNG / Gas
Japan	3	1 / 1
China	2	9
Korea	5	2 / 9

Source: composed by the author.

Already major consumers, the NEAs are expected to demonstrate growth (albeit of an uneven rate) in demand in the future. China's primary energy demand is projected to become the largest in the world surpassing that of the US by around 2020 and to exceed European countries' combined energy demand by 2035 (refer to Graph 17).

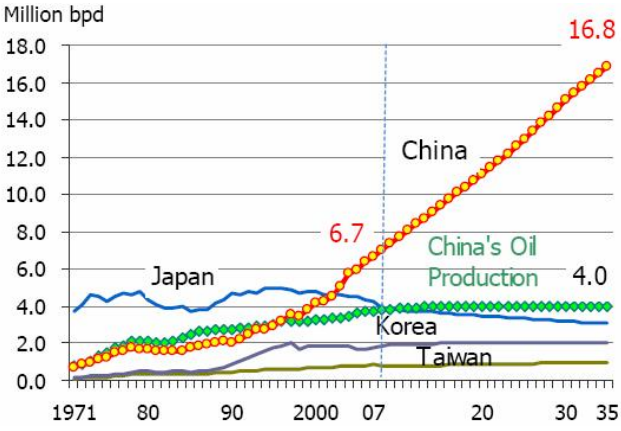
Graph 17 NEA in world primary energy demand, bn toe



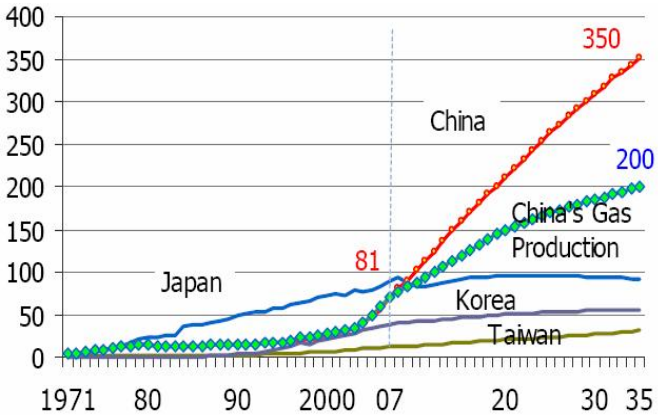
Source: Kanekiyo Kensuke (2010) Geopolitics of energy and global warming in Northeast Asia. April. IEEJ <http://eneken.ieej.or.jp/data/3109.pdf>

While Japan and Korea represent mature energy markets, China demonstrates great potential for further energy demand growth (refer to Graph 18 and 19).

Graph 18 NEA's oil demand



Graph 19 NEA's gas demand



Source: Kanekiyo Kensuke (2010) Geopolitics of energy and global warming in Northeast Asia. April. IEEJ <http://eneken.ieej.or.jp/data/3109.pdf>

As is known, Russia is the only energy self-sufficient economy in NEA. Objectively speaking, data on Russia's hydrocarbons located eastwards are inexact, as only 6 per cent of continental shelf and 7.3 per cent of onshore area have been covered by geological exploration, but the resources are believed to be enormous. By some estimates, 25 per cent of Russia's total gas and 15 per cent of its total oil resources are located in East Siberia and the Far East. The estimates hold that the initial total hydrocarbon resources of the region are of 100-140 bn t of oil. Some 140 oil and gas fields have been developed in the region (including its sea shelf), while development of about 50 major oil fields and over 170 gas fields is yet to be undertaken. Of those 15 gas and 7 oil deposits expected to contain 1.8 bcm of gas and 396.2 mn t of oil are prepared for industrial development. Preliminary estimates on reserves of some other 6 major oil and gas fields of the Sakhalin shelf indicate some 292 mn t of oil and 0.9 bn cm of gas.

The Energy Strategy 2030, a program document drawing the long-term prospects of Russia's involvement in the Asian region, envisions the volumes of oil and gas potentially available for production in Russia's East Siberia and the Far East and exports to neighbouring NEAs as follows (refer to Table 32). Apparently, the Asian markets are set to become a more significant destination for Russian carbon exports.

Table 32 Energy Strategy 2030's estimates on oil and gas output on total and that in East Siberia and the Far East, and shares of oil and gas exports to Asian markets.

Indicator	Phase 1	Phase 2	Phase 3
Production			
Oil, mn t, including:	486 – 495	505 – 525	530 – 535
East Siberia	21-33	41-52	75-69
Far East	23-35	30-31	32-33
Gas, bn cm, including:	685 – 745	803 – 832	885 – 940
East Siberia	9-13	26-55	45-65
Far East, including:	34-40	65-67	85-87
Sakhalin	31-36	36-37	50-51
Export to Asian markets, % to total			
Oil	10 – 11	14 – 15	22 – 25
Gas	11 – 12	16 – 17	19 – 20

Source: Energy Strategy of the Russian Federation until 2030. Approved on November 13, 2009. Governmental Order No. 1715-p. pp. 102, 109, 111

The CERA's long-term forecasts are of a much modest scale. That is to say, albeit oil production outlook predicts total eastern output to rise significantly from 4.6 mn t in 2005, it is yet to reach only some 28.5 mn t in 2010 and 40.2 mn t in 2015. Sakhalin's oil production (mainly thanks to Sakhalin I and Sakhalin II PSAs) is assumed to amount to some 23 mn t by 2015.[174] Further increment in oil output is expected to come from East Siberia (Vankorskoe, Verkhnechonskoe, Talakanskoe, etc. fields).

Gas reserves are estimated by Gazprom at 52.4 tn cm on-shore and 14.9 tn cm off-shore, part of which can become to the NEAs' benefit. In the vast area of East Siberia and the Far East, Gazprom pursues its ambitious Eastern Gas Program, which envisages an annual natural gas output at over 200 bn cm by 2030 (from 8 bn cm in 2006). Five centres of gas production located in East Siberia and the Far East (namely, Krasnoyarsk, Irkutsk, Yakutia, Sakhalin, and Kamchatka) are scheduled to be activated depending on the degree of their current development (refer to Map 8).

[174] Sagers, Mathew J. (2006) Regional dimension of Russian oil production: Is a sustained recovery in prospect?// Eurasian Geography and Economics. 47. No. 5. p. 543.

Map 8 Centres of gas production and gas pipelines in East Siberia and the Far East.

Source: Gazprom`s Eastern Gas Program to 2030, Vostok – 50 Program.

In the recent years, Gazprom has significantly increased its presence in the Far East. That is to say, it holds 47 licences on fields located in Krasnoyarsky krai, Irkutskaya oblast, Republic of Sakha (Yakutia), Chukotsky Autonomous okrug, shelf of the Okhotsk Sea and Bering Sea. In 2009, Gazprom's positions in the eastern part of Russia were further solidified as the company received the licences to develop Vostochno-Odoptinsky, Kirinsky, and Ayashsky deposits of Sakhalin III (refer to Table 37), and Nizhne-Kvakchinskoe and Kshukskoe deposits in Kamchatka (refer to Table 33).

Table 33 Gazprom' projects in Kamchatka.

Name/ Route	Ownership	Fields/Reserves/ Capacity	Investment	Status
West Kamchatka Krutogorovsky block, Sukhanovsky Block	Rosneft (60%), KNOC (40%) September 2008 – take-over by Gazprom over Rosneft`s licence expiration; June 15, 2009 – Gazprom obtains licences	1,8 bn t of oil, 2,3 tn cm of gas	$ 14.3 bn for 2008-2020	drilling proved unpromising in the third quarter of 2008
West Kamchatka onshore	KNOC Kamchatka Petroleum Ltd. (KNOC 55%, Koryak Okrug Administration 45%)	Oyarskaya-1R deposit Voyampoljskoe field		explorative drilling

Source: composed by the author, revised and adopted in line with the most recent developments.

Kamchatka, which became a new gas production centre, is set however to meet local demand only. Kamchatka's Sobolevo-Petropavlovsk-Kamchatskij gas pipeline is to be completed in 2010 to supply the peninsula's need from the Kshuksky and Under-Kvakchiksky deposits in the western coast. Initially also domestically-oriented, the Sakhalin-Khabarovsk-Vladivostok and the Yakutia-Khabarovsk-Vladivostok gas pipelines, are now seen as the segments of the transport network enabling future exports to China and Korea. The Sakhalin-Khabarovsk-Vladivostok gas pipeline linked to Sakhalin-1 and potentially to Sakhalin-3 is expected to be put into operation by 2012. In 2012, Gazprom plans to start the construction of the Yakutia-Khabarovsk-Vladivostok gas pipeline (to be completed by 2017). The annual projected capacity of this 4500 km pipeline is up to 32-35 bn cm. The pipeline is to run along the ESPO route sharing some facilities and thus cutting the construction time and decreasing the costs. The pipeline will deliver gas from Chayandinskoe and other Yakutian deposits to be consumed domestically in the Far East, but also exported to the Asia Pacific Rim.

The year 2009 saw remarkable developments in Russia's cooperation with NEA in both gas and oil sector. Given that only a few years ago Russia was of no significance to the NEAs as an energy supplier, the current achievements are worth noting (refer to Table 34). This is particularly relevant bearing in mind the scale of the NEAs' present energy demand and its future potential.

Table 34 Russia as NEAs' energy supplier, as of 2009.

Country	Share in oil consumption, %	Share in LNG imports, %
Japan	3.8	7.2
China	4.2	-
Korea	4.3	5.6

Source: composed by the author.

As the table 35 shows, the Sakhalin II project's LNG is mainly scheduled to Japanese utilities. Japan reportedly will consume up to 65 per cent of Sakhalin's LNG exports, while Korea will receive some 15 per cent, and the US about 20 per cent of LNG. In the current circumstances of ambiguity for Russian LNG in the US, the Japanese and Korean markets are extremely attractive to Russia. Opposite to market situation in North American, the competition for LNG demand in NEA may even decrease because of reducing LNG exports of such traditional LNG suppliers to NEA as Indonesia and Malaysia, which are facing a double challenge: depletion of domestic gas fields and growth of domestic energy demand.

Table 35 Contracts for Sakhalin II LNG.

Company	Duration	Volume, million t / y
TEPCO	2007-2029	2.0
Tokyo Gas	2007-2031	1.2
Kyushu EP	2009-2031	0.5
Toho Gas	2010-2033	0.6
Hiroshima Gas	2008-2028	0.214
Tohoku EP	2010-2030	0.42
Nijio	-	0.4
Chubu EP	2010-2030	0.5
Osaka gas	2008-2028	0.2
Saibu Gas	2011-2026	0.0085
Shell Eastern Trading	2008-2028	0.9
Gazprom Global LNG	2008-2028	0.9
Kogas	2008-2028	1.5+option

Source: Kobayashi Yoshikazu (2010) Natural gas situation and LNG supply/ demand trends in Asia-Pacific and Atlantic markets. January 7. IEEJ. p. 17; Bradshaw, Michael (2009) Russia's new energy frontier: The way forward// Northeast Asia Energy Forum. Vol. 6 No. 4. Winter. Pp. 36- 47.

Initially Gazprom Global LNG was not among the traders. Gazprom received access to the Sakhalin's LNG through an agreement with Shell Eastern Trading, Ltd. Under provisions of this agreement, Gazprom attains a share in LNG deals and access to the Costa Azul LNG terminal (allowing shipments to the US) in return for delivering an equivalent volume of gas to Shell in Europe. These agreements, in Bradshaw's observation, "highlight the global reach of the Sakhalin projects and the increasing globalization of the gas market".[175] In March 2010, Gazprom opened a new office in Singapore[176]- Gazprom Marketing & Trading Singapore Pte. Ltd. The Singapore-based unit targets at further diversification of LNG shipping and trading, extension of the existing offering to Asia-Pacific, as well as portfolio development and carbon credit originating projects.

Gazprom has long been placing hopes to open up a supply relationship with China (this, in fact, is believed to be one of the reasons of Gazprom's interest in Sakhalin I), but no fruit has been yielded yet. Russia and China signed a MoU in March 2006, agreeing on up to 80 bn cm of annual exports to China from 2011. A similar agreement was signed with Korea in October 2006. Two export routes have been in principle considered: the western (the Altai project relying on the Siberian fields directed to China) and the eastern (gas of Sakhalin origin transported through the system of domestic pipelines for both internal consumption and export to China and Korea) (refer to Tables 36 and 37).

[175] Bradshaw, Michael (2009) Russia's new energy frontier: The way forward// Northeast Asia Energy Forum. Vol. 6 No. 4. Winter. p. 46.
[176] In addition to subsidiaries established earlier in Houston, Paris, Berlin, and Manchester// Gazprom Marketing and Trading home-page < http://www.gazprom-mt.com/index.asp>

Table 36 Altai gas pipeline specifications and designated deposits

Name/ Route	Ownership	Fields/Reserves/ Capacity	Investment	Status
Altai pipeline	Gazprom, CNPC	main field Chayandinskoe oil gas condensate field (Yakutiya): oil 68.4 mnt, gas 1.24 tn cm. 2,700 km: deposits in Yamal Nenets and Khanty Mansiisk Autonomous District, Tomsk and Novosibirsk Region, Altai – Xinjiang region, Western China – West-East gas pipeline; 30-40 bn cm/ y	$ 14 bn	memorandum of 2006; agreements 2009; construction to start 2016
Kovykta Condensate Gas Field project (Irkutsk Region)	TNK-BP – licence holder; RUSIA Petroleum (62.42%), VSGC (11.24% in project), Interros (25.82%); CNPC, KoRus (consortium of Korean companies)	2.1 tn cm of gas, 2.3 tn cm of helium, 115 mn t of gas condensate; gas extraction – 30-35 bn cm/y; 4,887 km: Kovykta gas field – north-eastern China (20 bn cm/y) – Korea (10 bn cm/y)	estimated $ 17-18 bn; TNK-BP invested $664mn, as of 2010.	In 2007, TNK-BP reached agreement with Gazprom to sell 62.42% of RUSIA Petroleum and 50% of VSGC for $700-900 mn; in 2010, Rosneftegaz was expected to substitute Gazprom. Project was expected to be started from 2017; marketing in Korea and China. Prospects are unclear. intergovernmental Russian-Chinese general agreement on February 25, 1999; agreement on supplying gas to China and Korea signed by RUSIA Petroleum, CNPC and Kogas, November 2, 2000; MoUs in 2006;

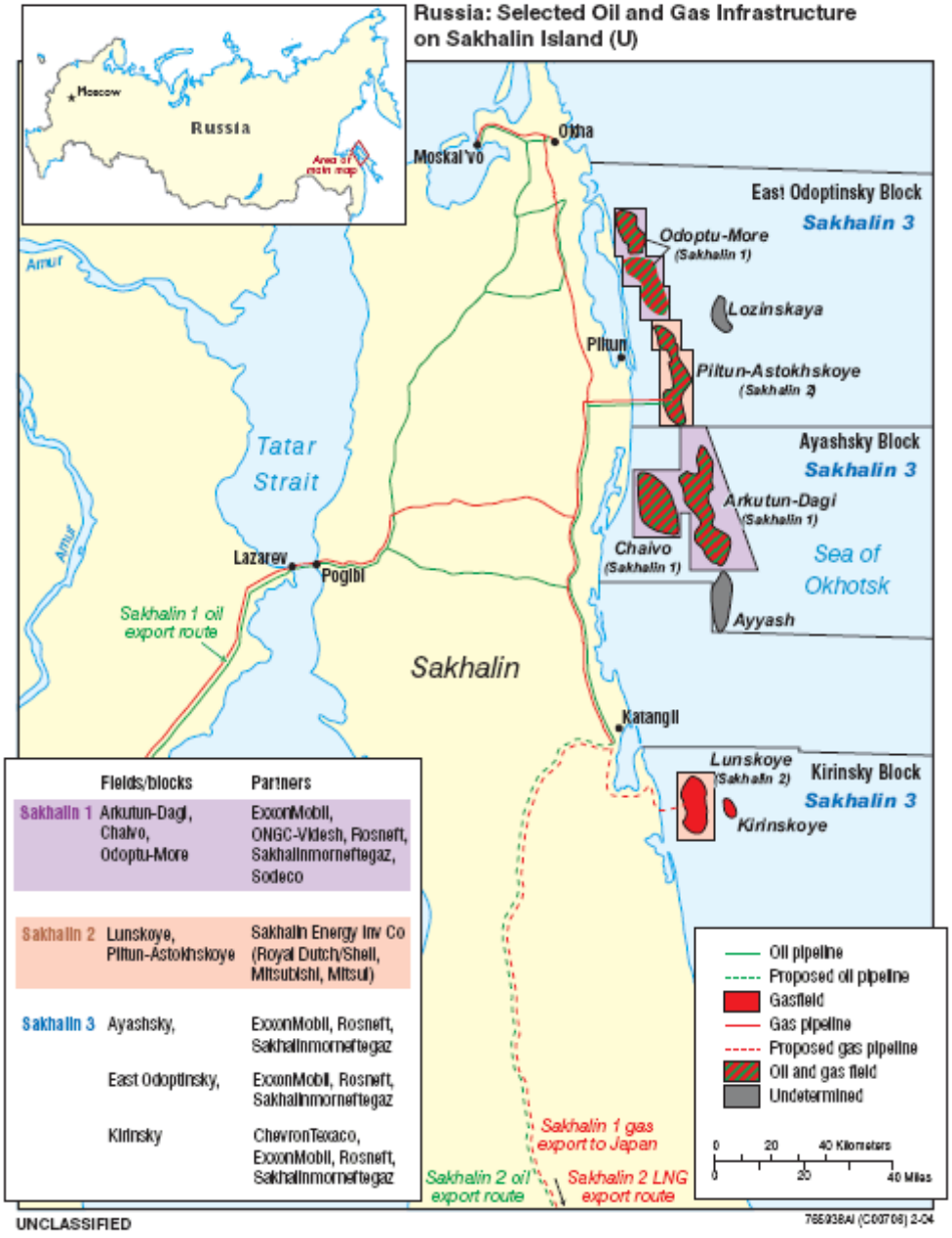
Source: composed by the author, revised and adopted in line with the most recent developments.

With an apparent disagreement with China on pricing terms (Gazprom had pushed for netback parity with its sales to Europe, while China refused this as unacceptably high), little progress has been achieved in the subsequent years. With the 2011 deadline becoming elusive, the parties signed yet another memorandum of understanding in October 2009 calling for somewhat reduced supplies (70 bn cm/y) from 2014-2015. Russia's Deputy Prime Minister Sechin was quoted at the time as saying the actual supply agreement and pricing terms should be agreed in June 2010, but CEO of Gazprom Export Medvedev observed that no agreement can be expected before 2011. Thus, the prospects for pipeline gas export to NEA remain blurred.[177]

As far as oil exports to the NEA market concerned, it is enabled through the shipments of oil extracted in Sakhalin (refer to Map 9 and Table 37) and East Siberian fields (refer to Map 10 and Table 38).

[177] Subsequent sections offer more detailed analysis of the situation.

Map 9 Sakhalin I – III projects.



Source: http://www.eia.doe.gov/emeu/cabs/Sakhalin/Background.html

As Table 37 shows, only the Sakhalin I and II projects are operational. In 2009, 39.6 per cent of oil extracted at the Sakhalin I and II projects were sent to Korea, and 38.4 per cent to Japan, the remainder was split evenly among China, USA, Philippines, Taiwan, Thailand, and New Zealand.

Table 37 Offshore projects in the Far East.

Name/ Route	Ownership	Fields/Reserves/ Capacity	Investment	Status
Sakhalin I	ExxonMobil (30%), SODECO (consortium of Japanese companies) (30%), Rosneft (20%: Rosneft-Astra – 8.5%, SMNG-Shelf-11.5%), ONGC Videsh Ltd. (India) (20%)	307 mn t of oil and condensate, 485 bn cm of gas at Chayvo, Odoptu, and Arkutun-Dagi fields capacity: 12.5 mn t/y and 10- 11 bn cm/y	$ 17.8 bn ($ 6.6 bin funnelled, as of June 2006)	drilling started on July 12, 2003, oil production (Chaivo) 2005; first oil exported in October 2006; 2009 oil production 8.2 mn t (2008 – 9.6 mn t) 2009 – 9 mn t), gas – 9 bn cm (2008 – 8.3 bn cm); gas supplied to domestic market
Sakhalin II	Gazprom (50% plus one share), Shell Sakhalin Holdings B.V. (27.5%, minus one share), Mitsui Sakhalin Holdings B.V. (12.5%), Diamond gas Sakhalin B.V. Mitsubishi (10%)	600 mn t of oil, 700 bln cm of gas at Piltun-Astokhskoye and Lunskoye fields capacity: 8.5 mn t/y and 15 bn cm/y (LNG 9.6 mn t / y)	$ 22 bn	oil exports started in July 1999; phase II: year-round oil production from 2008; LNG production and exports from 2009; oil production – 6.9 mn t; gas 9 bn cm (2009)
Sakhalin III	Rosneft (74.9%), Sinopec (25.1 %) – Veninsky block Gazprom – Kirinsky block (2008); Vostochno-Odoptinsky and Ayashsky (June 2009) Likely: Sakhalin Energy and Shell	Veninsky block 163 mn t of oil, 1,200 bn cm of gas; Kirinsky block – 8.6 ml t of gas condensate, 100 bn cm of gas; Ayashsky, Vostochno-Odoptinsky – 170 mn t of oil, 670 bn cm of gas	$13.5 bn	Veninsky - drilling from 2008; operational 2014; Kirinsky - operational from 2011
Sakhalin IV Zapadno-Shmidtovsky block, Okruzhnoe field	Rosneft (51%), BP (49 %)	Zapadno-Shmidtovsky block – 235 mn t of oil, 360 bn cm of gas	estimated $2.6 bn to develop	drilling results in 2007 were not positive; prospecting was not conducted in 2008; development of seismic exploration
Sakhalin V Kayagano-Vasyuganskiy block, Vostochno-Shmidtovsky block	Rosneft (51%), BP (49 %)	Kayagano-Vasyuganskiy block – 1,172 mn t of oil, 432 bn cm of gas, Vostochno-Shmidtovsky block – 516.5 mn tof oil, 408.2 bn cm of gas	$3-5 bn expected	in 2008, seismic processing acquisition on existing licence blocks
Sakhalin VI Pogranichnyi Block	Urals Energy (UK) – 97%, Sakhalin Oblast Authority – 3 %	1 bn t of oil, including Pogranichny block 240 mn t	-	geological survey showed good prospects
West Kamchatka Krutogorovsky block, Sukhanovsky Block	Rosneft (60%), KNOC (40%) September 2008 – take-over by Gazprom over Rosneft`s licence expiration; June 15, 2009 – Gazprom obtains licences	1,8 bn t of oil, 2,3 tn cm of gas	$ 14.3 bn for 2008-2020	drilling proved unpromising in the third quarter of 2008
West Kamchatka onshore	KNOC Kamchatka Petroleum Ltd. (KNOC 55%, Koryak Okrug Administration 45%)	Oyarskaya-1R deposit Voyampoljskoe field	-	explorative drilling

Source: composed by the author, revised and adopted in line with the most recent developments.

Another route for oil deliveries to the NEA was opened up by the launch of the first stage of the East Siberia Pacific Ocean (ESPO) pipeline on December 28, 2009. The projected capacity of the ESPO I is 30 mn t, of which 15 mn t are to be sent to China (before the Skovorodino – Daqing spur is completed – by rail), and other 15 mn t are to be transported (before the ESPO II completion also by rail) to Kozmino port from where the oil is shipped to a broad number of consumers. By 2014, The ESPO is expected to be extended all the way to Kozmino (refer to Map 10 and Table 38).

Map 10 The ESPO oil pipeline route and stages.

Source: Argus.

In 2010, the ESPO is planned to be filled with some 30 mn t of oil, of which 11 mn t will be carried from Western Siberia, 12 mn t will be extracted from Vankorskoe field, and about 6 mn t of oil from Verkhnechonskoe, Talakanskoe, and some other fields. In 2011, Vankorskoe will be producing some 17 mn t, and up to 12 mn t are to be extracted at some other East Siberian fields.

Table 38 The ESPO oil pipeline, designated fields and related projects.

Name/ Route	Ownership	Fields/Reserves/ Capacity	Investment	Status
East Siberia Pacific Ocean Pipeline (ESPO)	Transneft, suppliers Rosneft, TNK-BP, Surgutneftegas, etc. (Japan`s JOGMEC)	ESPO-1: 2,694 km Taishet – Ust-Kut – Lensk – Olyokminsk – Aldan – Tynda – Skovorodino; 30 mn t/y; ESPO-2: 2,100 km Skovorodino – Kozmino, 50 (up to 80) mn t/y	first stage – 8.7 bn euro; second – 8 bn euro (Russia);	first stage started in April, 2006; launched in December 2009; second stage to be completed by 2012
Spetsmornefteport Kozmino (specialised sea oil port)	Transneft	Skovorodino – Kozmino Oil Terminal (Japan and other Pacific countries) 50 mn t/y	$ 2 bn	completed in 2009
Skovorodino – Daqin	Transneft CNPC	Skovorodino – border with China – 64 km – further to Daqin – 965 km (by CNPC); 30 mn t/y capacity	Russian section - $436 mn; extension to China $800 mn	Transneft & CNPC signed deal October 28, 2008; construction started in 2009
Vankorskoe oil field (Krasnoyarsk Region, Taimyr)	Rosneft	490 mn t; annual production 15 mn t of oil; oil pipeline Vankor – Purpe 550 km of 18 mn t/y capacity	$ 2.7 bn	operational August 21, 2009
Yurubcheno-Tokhomskoe, Kuyumbinskoe, Nizhneangarskaya Group, Sobinsko-Teterinskaya Group – oil and gas fields (Evenk Autonomous Area, Krasnoyarsk Region)	Slavneft, Transneft, Gazprom; possibly – Rosneft, TNK-BP	Yurubchenskoe – 64 mn t oil (Slavneft), gas 700 bn cm (Gazprom); Kuyumbinskoe – 200 mn t (Rosneft); Sobinsko-Paiginskoe – 170 bn cm (Gazprom)	$ 17.4 bn, including development - $ 14.5 bn, oil pipelines - $ 1.2 bn, gas pipelines - $ 1.65 bn	start at projected capacity from 2013
Talakanskoe (Republic of Sakha, Yakutiya) oil and gas condensate field and Verkhnechonskoe, Yaraktinskoe, Dulisjminskoe (Irkutsk Region) oil and gas field	Verkhnechonskneftegaz (TNK-BP, Rosneft), Surgutneftegas	1.24 tn cm of gas; oil: Verhknyaya Chona – 201 mn t; Yaraktinskoe – 40 mn t; Dulisjminskoe (2011) – 15 mn t; Talakan – 124 mt; annual extraction – 14-17 mn t; helium – 7.2 bn cm; capacity – 31 bn cm/y	$3.2 bn (Verkhnyaya Chona), $4 bn (Talakan); including $1bn for oil pipeline Talakan – Ust-Kut	Talakanskoe(-Taishet) started Oct.6, 2008; Verkhnechonskoe – Oct.2008; completion for domestic consumption by 2013; Japan, China, Korea – potential markets

Source: composed by the author, revised and adopted in line with the most recent developments.

As of May 2010, the largest importer of the ESPO oil was Korea (39 per cent), followed by Japan (20 per cent), US (14 per cent), China (11 per cent), Thailand (8 per cent), Taiwan (4 per cent) and Singapore (4 per cent).

Strictly speaking, the ESPO project has yet to be become (if ever) commercially feasible. The Federal Tariff Agency has set the ESPO transport tariff for oil at 1598 roubles per tonne, while *de facto* costs were quoted as approximately 3890 roubles a

tonne. Thus, if not for the subsidies, Transneft's losses in 2010 could amount to 30 bn roubles (70 mn euro). As was previously noted, seeking to facilitate the eastward shift in Russian oil export, the government decided to subsidize the ESPO borne exports via a suspension of export duties on East Siberian oil and a preferential transport tariff for ESPO crude (setting it at $50/t while actual cost is at $130/t).

As had been described in first chapter, the export duty exemption as a means to improve economic incentive for participation in the ESPO pipeline project, was enacted for oil extracted from 13 fields designated for the ESPO from December 2009. From 2007, these fields are freed from the mineral extraction tax. It obviously enhanced the exploration and development activity in the region, but as a matter of fact, the estimates showed that even the peak 2014 output of these 13 fields is to total to some 50-55 mn t/ y, while the ESPO's projected capacity is 80 mn t. In order to meet this quantitative target, the list of the fields under favourable taxation was expanded to some 22 fields of accumulated capacity 81 mn t.

On the whole, Russia's prospects with regard to strengthening its position in the Asian oil market look rather positive. Due to China's oil demand, the Asian market is by far larger and vibrant than the European one. That is to say, in December 2009 China's crude oil imports were record high topping 5 mn b/d. In contrast, the European demand had fallen by 1 mn b/d over the last three years. Also, the infrastructure enabling Russian oil export to Asia Pacific Rim is gradually coming in place, thereby solidifying Russia's energy ties with the APR and transforming them into a long-term format. For Russia, a closer involvement with the Asian market is a plus because here it is most likely to yield a higher – as compared to the European market – price. For their part, the NEA economies, traditionally suffering a burden of the Asian premium, would enjoy newly emerging oil flows. Adding on the facet of economic benefits, the time required to deliver Russian exports to the Asian markets is significantly shorter – 5 days, while the delivery of supplies from the Middle East, Africa, and Brazil requires at least two-week sailing. Also, considerations of the sea lanes security (especially, of the Strait of Hormuz and the Strait of Malacca) favour a switch towards Russia's larger share in the NEAs' oil imports.

Some analysts anticipate certain structural shifts in Russia's oil exports, arguing that as the ESPO enables swings between the West and the East, and therefore can significantly change Russia's exports dynamics. This view, though, should be taken

with a grain of salt. Even provided that economics of distance is not a decisive factor because the network tariff levels off the profitability of West- and East-oriented exports, the swaps, at least the spontaneous (undermining security of supply the most) ones, are rather unlikely. Russian oil companies have more or less clear geographical concentration of production, and the export linkages are established subsequently (literally, the companies producing oil in Russia's West tend to export it westwards).

Some industry experts consider another possible sequel of Russian exports' diversification – an upward shift in the price for Russian oil. Pointing at the IEA reports about Russian crude exports being rerouted from the ports on the Baltic and Black Seas towards the East, they predict that tighter Russian supplies to the European markets will push up the price of Urals, Russia's main export blend (which is traditionally traded at some 70 cents discount against Brent). However, the price shifts should be scrutinised in a broader framework where the higher quality parameters of the new Russian ESPO blend is a more plausible reason for the higher prices.

Albeit this section was originally designed to represent Russia's energy policy towards the NEA region in its entirety, this appears a highly unattainable undertaking, because the NEA is a *sui generis* reference, where "many of the factors normally constitutive of a region are in scant supply",[178] and the overall environment for the international relations in NEA is strained by such complex nodes as the territorial disputes and proliferation issues. Indeed, multilateral cooperation in NEA is challenged by territorial claims embracing all the NEAs (with only one case of such – between Russia and China – eventually settled in 2004), the ongoing Japan-Korea debate over the international name of the sea (which the Japanese refer to as the Sea of Japan, but Korea and the DPRK reject suggesting instead the East Sea and the East Sea of Korea, respectively), the pending issue of the DPRK denuclearization, etc. The intra-regional frameworks are almost non-existent and in most instances cooperation is pursued in bilateral format supported by various ad hoc intuitions. Pursuing the task of a more objective analysis, Russia's relations with the NEA's troika are scrutinised in a separate manner in the respective sections.

[178] The international relations in Northeast Asia (2004)/ Ed. By Samuel S.Kim. Rowman & Littlefield Publishers. Inc. p. 331.

Russia – China

"Energy has become a central plank of the bilateral relationship and of the two countries' foreign policies more generally."

Bobo Lo (2008) Axis of convenience; Moscow, Beijing, and the new geopolitics. London: Chatham House – Washington: Brookings Institution Press. P. 14.

As Bobo Lo, an outstanding expert on Sino-Russian relations credited with creating a framework for analysis of Russia-China relationship as formed along the "axis of convenience" – observed, "The improvement in Sino-Russian relations has been steady and linear. There have been important signposts on the way: progressive demarcation of the border...; the 2001 Treaty of Good Neighbourliness and Friendly Cooperation; the establishment and expansion of the SCO; the growth of economic ties".[179] However, as "the growing asymmetry in perspectives, interests, and capabilities" becomes more apparent in bilateral relations, this is believed one of the most destructive factors to "the development of a long-term common sense of purpose." [180] Albeit naming Sino-Russian partnership a strategic one, Yong Deng nevertheless draws the picture of bilateral relationship with a palette very similar to Lo's, holding that "[r]hetoric ... of "strategic partnership" hides more than it reveals the nature, as well as the distinctive dynamism of ... dyadic relationship" and moves on stating that "[n]either Russia nor China is satisfied with their international status; both aspire to secure a seat at the great power table. From this perspective, both are ascending powers and fellow travellers out of the periphery. Such is the enduring logic behind the Sino-Russian strategic partnership".[181] Coining Russo-Chinese partnerships "strategic convergence", Marketos notes that it "…is a discernible trend that will gain further momentum. However, strategic convergence should not be confused with an alliance, and China and Russia are not perfect strategic partners. Developments inside China and Russia are crucial to how the relationship develops. Key questions are whether political stability will prevail and whether rapid growth can be sustained".[182]

It seems accurate to view the contemporary Russo-Chinese relations as informed by a pragmatic approach whereby both sides pursue their interests and seek the utmost

[179] Lo (2009). p. 181.
[180] Ibid , p. 178.
[181] Deng, Young (2009) Beyond alliance? China's strategic partnerships with Russia and India/ in Quansheng Zhao and Guoli Liu, eds. Managing China's challenge: Global perspective. New York: Routledge, pp. 151-163, pp. 167-176.
[182] Marketos (2009). p. 99.

benefits. In this light, some of Lo's recent assessments are apparently at odds with reality. Lo's analysis of Russia's policy rests upon traditional grounds and results in such characteristic as: Russia's "assertive approach in Central Asia, an unhealthy fixation on the geopolitics of energy, "balancing" between Asia and Europe, and attempts to revise Russia-China-U.S. triangularism as a way of positioning Moscow at the center of global decisionmaking." On the other hand, despite the unpleasant connotation incorporated into a view that China treats "Russia as a secondary bilateral rather than primary global partner, and a source of energy rather than a close collaborator in an anti-Western or non-Western caucus of great powers", [183] it appears a just evaluation.

On one particular aspect the experts agree unanimously: if there is an area of mutual interest it lies in energy realm. "... [P]otential development of energy linkages between Russia and China provides a critical economic basis to the relationship which would otherwise be absent." [184] With regard to a more distant implications of the currently unfolding energy partnership, the views are polarising from a notion that "Russia-China relations based on energy cooperation could develop into something like an axis"[185] to the observation that despite for China "energy is another major dividend of partnership with Russia" "polarized understandings of energy security translate into an imperfect complementarity". [186] Within Russia itself, as argued earlier, the energy is not explicitly declared as a foreign policy tool, and in reality energy issues often reflect an overall state of relations with a certain country, but not fundamentally shape them.

It is also hard to accept Lo's opinion that "[c]ompared with the complex motivations shaping Russia's energy policy, China's aims are straightforward. It seeks to maximise imports – principally crude oil, but also nuclear energy, cheap pipeline gas, and LNG – in order to sustain the process of domestic transformation. Unlike Russia, it has no geopolitical axe to grind here; energy is not a means of external power projection, but a vital national need." [187] As preceding analysis attempted to present: Russia's energy export is not end in itself, but a means of economic development. Russia's energy policy is often reactive (as opposed to Chinese active energy policy around the globe) and is rather far from the state to be seen as entirely politically motivated. Suffice to remember the share of energy export in the country's total exports, the share of energy

[183] Lo (2009) p. 175.
[184] Dannreuther, Roland (2003) Asian security and China's energy needs// International Relations of the Asia-Pacific. 3: 211.
[185] Energy Security in Asia (2007) Michael Wesley (ed). London – New York: Routledge. p. 22.
[186] Lo (2008) p. 134.
[187] Lo (2009) p. 141.

related revenues in national budget, the amount of elapsed incomes and losses occurred over the energy ties' disruptions; it all has a very sensitive economic dimension for Russia. Additionally, energy has a significant developmental impact. In the eastern territories of Russia, especially, the development of energy sector is probably the only one plausible possibility to tackle such major problems as continuing depopulation and enduring economic stagnation; the issues which further unaddressed would inevitably start projecting threats on Russia's sovereignty and integrity.

Albeit Lo names "Moscow's reluctance to become too China-dependent in terms of markets, as well as concern that Russia is turning into a resource-cow for Chinese modernization"[188] as main causes of a slow progress in Sino-Russian energy cooperation, the facts, indeed, tell us different story. In the very same volume, Lo to a certain extent contradicts himself pointing at "An important structural disconnect separates the world's largest energy exporter from its fastest growing energy consumer: Moscow would like to sell natural gas to China, whereas Beijing is much more interested in buying Russian oil".[189]This observation holds true.

An additional dimension interesting for further investigation is the question the author of this work is particularly concerned with: Why while negotiating new deals with China, Russia faces enormous difficulties in reaching the agreements on both volume and price parameters? China is, by all accounts, a (commercially) tough partner for Russia. It heavily negotiates over the price and eventually gets deals from Russia on exceptionally beneficial terms. It is then tempting to find out what are Russia's raison d'etre and China's modus operandi to maintain the bilateral energy relationship in such a mode?

Setting the scene for the analysis of Russia-China energy relations, let us first refer to some key facts and figures. In 2009, China's oil and gas imports doubled against 2008. Additionally, China has been active in overseas acquisitions, the largest of which were Sinopec's $7.2 bn purchase of Swiss company Addax Petroleum that enabled access to oil in northern Iraq in August 2009; PetroChina's $1.9 bn venture into Canada's oil sands in September; etc. The scale of China's foreign energy acquisitions was especially salient against the backdrop of the global economic recession. What further surprises is that while bidding for energy assets elsewhere around the globe China

[188] Lo (2008) p. 14.
[189] Ibid, p. 134.

pays "...well above what private sector western companies would contemplate"[190]. As Kang Wu, an expert on China's energy notes "China's state oil firms are paying top dollar for their energy purchases… They are cash-rich, which is why they can offer better terms to the host country or company..."[191] Thus, it is not only the scale, but the price that make China a prominent actor in the global energy market.

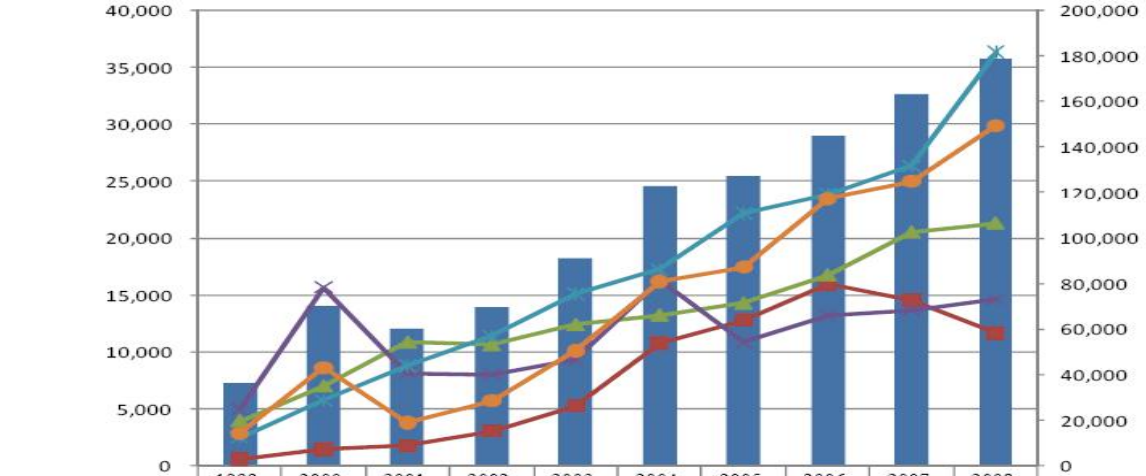
Over the recent years, Russia and China have tremendously strengthened their ties. [192]A very positive impulse was generated by settlement of the border dispute over the islands located in proximity of Khabarovsk city, Russia. The handover of Tarabarov Island (Yinlong Dao in Chinese) and half of Bolshoi Ussuriysky Island (Heixiazi Dao) in August 2008 was the final stage in rectifying the Sino-Russian border, thus completing the process of delineation of the border between China and the former Soviet Union revitalized in 1991.

An enormous potential for Russo-Chinese energy cooperation have eventually started actualising in the two countries' oil and gas deals. In the oil sector, Russia exports oil to China by railway in the Far East and through Atasu-Alashankou (Kazakhstan). According to Russia-Kazakhstan Protocol on Cooperation in Fuel Energy Complex signed in 2009, the annual transit of Russian oil is defined as 12 mln t, of which 7 mln t are designated for Kazakhstani refineries and reminder of 5 mln t is to be sent to China. Built by CNPC and Kazmunai Gaz 988 km Atasu-Alanshkou pipeline is operational since May 25, 2006.

According to Graph 20, Russian crude oil exports expanded from about 0.6 mn t in 1999 to about 11.6 mn t in 2008 (seeing a peak of 16 mn t in 2006). By some accounts, Russian supply constituted 8.9 per cent of China`s crude imports in 2008.

[190] Energy Security in Asia (2007) Michael Wesley (ed). London – New York: Routledge. p. 19.
[191] China's rising foreign energy acquisitions (2009) October 27 <http://www.upi.com/Science_News/Resource-Wars/2009/10/27/Chinas-rising-foreign-energy-acquisitions/UPI-49021256676217/>
[192] Takeda, Yoshinori (2008) Russia's New Political Leadership and its Implication for East Siberian Development and Energy Cooperation with North East Asian States. Russian Analytical Digest # 33. 22 January <http://www.isn.ethz.ch>

Graph 20 China's crude imports, 1000 t



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total (right axis)	36,614	70,265	60,255	69,464	91,124	122,724	127,083	145,180	163,160	178,893
Russia	572	1,477	1,766	3,030	5,254	10,777	12,776	15,966	14,526	11,638
Iran	3,949	7,001	10,847	10,630	12,394	13,237	14,273	16,774	20,537	21,322
Oman	5,021	15,661	8,140	8,045	9,268	16,327	10,835	13,183	13,678	14,585
Saudi Arabia	2,497	5,730	8,778	11,391	15,080	17,244	22,179	23,872	26,332	36,368
Angola	2,876	8,637	3,799	5,705	10,103	16,208	17,463	23,452	24,996	29,894

Source: Itoh, Shoichi (2009) Moscow's energy strategy towards Northeast Asia: Can Russia realize its potential? Kennan Institute, Woodrow Wilson Center, February 1, 2010.

A major milestone of Sino-Russia energy relations was the $6 bn loan from the CNPC to Rosneft in early 2005. The deal envisaged that the loan is to be paid off by Rosneft's oil supplies of 48.4 mn t throughout the year of 2010. This financial resource made it possible for Rosneft to purchase Yuganskneftegaz (subsidiary of the former Yukos) at a state-run auction. 2005–2006 saw a series of deals between Rosneft and CNPC. An established Vostok Energy joint venture for upstream projects in East Siberia with Russian and Chinese stakes as of 51 per cent, and 49 per cent, respectively, is one of the examples. Also, CNPC developed ties with Transneft (in particular, within the ESPO project) and Gazprom.

Without doubt, China is first and foremost concerned about sufficiency of energy supply at *affordable price* (the latter is being especially emphasized with the point being that China is still a developing economy).[193] Russia may well be the one of the suppliers submissive to China's demands. For instance, in exchange for the above mentioned 2005 loan, Rosneft agreed to supply China with oil on price terms defined as Brent with $3/b discount (in 2007, Rosneft managed to decrease the discount to $2.325 b).

[193] E.S.: Personal communication with Jianping Zhang, Director of Department of International Regional cooperation at the Institute for International Economic Research of the NDRC, at the 2008 Working Group on Energy Cooperation in Northeast Asia. 19-21 March, 2008.

Before the two countries reached an agreement on the ESPO's spur to China in May 2008, negotiations have been stalled for about 2 years, because Rosneft and CNPC were divided over the export volumes and prices. Price is, indeed, the most problematic issue in Russian-Chinese negotiations with no exclusion for gas (a telling example is long negotiated Altai gas pipeline). China is bargaining heavily for lower prices of Russian supplies while Russia faces shrinking profit margins. Nevertheless, given the scope of China`s energy demand, it is not surprising that the desirable format for energy partnership with Russia is a long-term cooperation.

A breakthrough in Russian-Chinese oil cooperation has eventually happened in October 2008 when an agreement on Chinese leg of the ESPO was been reached and construction works significantly facilitated. In 2009, Rosneft received a $15 bn loan against contractual obligations to supply China with 15 mn t annually over a 20 year period. Reportedly, China again was able to attain very attractive – comparable with those under the 2005 loan – price conditions. Additionally, in relation with this agreement, Rosneft and CNPC are planning to build a refinery of 10 mn t/y capacity 100 km from Beijing and plan to open 300 to 500 gasoline filling stations in China. On December 28, 2009, the first stage of the ESPO was officially launched.[194]

In the gas field, prospects for bilateral ties were mainly – but not exclusively – linked to the development of the massive Kovyktinskoe gas and condensate deposit in Irkutskaya oblast. Initial deliberations on gas cooperation with Russia originated in Korea when a project to deliver Yakutia's gas via pipeline traversing the DPRK was suggested in 1989. Over numerous setbacks,[195] this initial routing has been revised many times since 1994 and took on more or less certain configuration as stemming from Kovyktinskoe field and targeted mainly at Chinese market.

In 2006, Russia and China signed a pipeline deal to send up to 80 bln cm/ y of Siberian gas to China. The China-oriented pipeline was planned to deliver gas from Kovykta field, the license on which was initially owned by TNK-BP. In 2007, TNK-BP agreed to sell the license to Gazprom, but the crisis and consequent shrunk demand made the project less attractive. In August 2009 Gazprom went public on the deal to be re-played – the license is to be bought by Rosneftegaz (100 per cent state-owned, a stakeholder of Rosneft – 75.16 per cent, and Gazprom – 10.74 per cent), albeit on much more

[194] Medetsky, Anatoly (2009) Putin launches Pacific oil terminal// The Moscow Times. 29 December 2009 <http://www.themoscowtimes.com/business/article/396936.html>
[195] Ahn, Se Hyun and Jones, Michael T. (2008) Northeast Asia's Kovykta conundrum: A decade of promise and peril// Asia Policy. No. 5. pp. 105-140.

modest terms (Gazprom was ready to pay about $1 bln).[196] Kovyktinskoe's fate remains undecided for a number of reasons, among which the unique character of the deposit (significant helium component) generates additional aspects to be taken into consideration before the development is commenced. Gazprom has recently announced that the field's development will be postponed until after 2017.

Despite the agreement signed in 2006 on gas deliveries from the Kovyktinskoe deposit to China, further negotiations collapsed, again over the price terms. That is why the negotiations between Gazprom[197] and CNPC[198] resumed in September 2009 came as a somewhat unexpected development. It was specifically noted that a successful implementation of the Eastern Gas Program, to which Gazprom is a coordinator, favours bilateral cooperation in the gas field.

In October 2009, a framework agreement on gas supplies from Russia of total 68 bn cm annually starting from 2014-2015 was signed between Gazprom and CNPC. [199] The agreement envisages two routes, both are to be linked to Russia's United System of Gas Supplies. Under the western option, an annual supply of 30 bn cm would be sent from West Siberia. Through the eastern route from East Siberia, connecting Kovyktinskoe field, deposits in the Russian Far East (Chayandinskoe field) and offshore Sakhalin deposits, some 38 bn cm could be pumped. Reportedly, the western option could be implemented within a shorter period of time because the ready for development large resource base and necessary transport infrastructure are already in place. In December 2009, Gazprom export (Gazprom's subsidiary) and PetroChina International (CNPC's subsidiary) signed the Agreement on Major Terms and Conditions of Gas Supplies from Russia to China.

The Gazprom – CNPC agreement, however, is eyed soberly. According to the National Energy Security Foundation, the benefits for Russia from new gas deal with China are pretty modest. The to-be-supplied to China gas is likely to be priced much lower than the prices paid by the European consumers (China has insisted on a price pegged to coal, which would come to $100-150 cm). The Russian – Chinese frame agreement has provisions pegging the price of future Russian gas supplies against the price of the

[196] Gazprom spisal Kovyktu// Kommersant № 151 (4206). 19.08.2009
< http://www.kommersant.ru/doc.aspx?fromsearch=fa683f2c-5c51-4733-ab2a-ec276bd214b3&docsid=1223097>
[197] Gazprom owns over 40 licences granting rights to subsoil sites use, among most valuable ones are Chayandinskoe deposit in Yakutia, Chinanskoe deposit in Irkutsk region, Sobinskoe deposit in Krasnoyarsky krai, Kirinskii, Vostochno-Odoptinky, and Ayashsky blocks in Sakhalin-3 and Zapadno-Kamchatsky block.
[198] CNPC is China's largest oil and gas producer and supplier (79% and 95% of domestically consumed oil and gas, respectively), a major company in refining industry (occupies 40%) and oil and gas distribution; operates in 28 countries.
[199] RusEnergy. News Online. October 15, 2009 <http://rusenergy.com>

Asian oil basket. In hindsight, the March 2009 bilateral deal on oil bewildered, to say the least, many not only in Russia but beyond. It seems, the answer rests in the same realm – Russian energy companies seeking the opportunities to broaden their finance base find it nowhere else but in China. Resource-hungry China willingly signs loan agreements with cash-strapped Russian energy companies against guaranteed energy supplies.

With regard to the LNG cooperation, albeit current China's LNG imports are still rather modest totalling to 4.4. bn cm in 2008 (compared to Japan's 92.13 bn cm and Korea's 36.55 bn cm), the Chinese market is highly attractive for Russia because the country is set to increase the LNG imports. However, Russia is not the only seller seeking the deals with China. That is to say, in the August 2009, Chinese PetroChina concluded a 20-year deal with ExxonMobil Australia (Gorgon field) on annual 2.25 mn t LNG import of an approximate value of $41 bn (in current price terms – $22 bn). This together with the previous deals – 25-year contract 3.7 mn t LNG signed in 2003, 20-year contract with Shell and Woodside (Australia) on 4 mn t LNG in 2007 – is believed to deter Gazprom's prospects in the Chinese gas market. Obviously, with its only one operational LNG plant in Sakhalin, Gazprom is lagging behind the dynamics of the LNG market in this part of the globe.

On the whole, China is to see a massive increase in gas consumption. Natural gas is projected to compose 6 per cent of the country's energy mix by 2030 from 3.4 per cent in 2008. China consumed 80.7 bn cm of natural gas in 2008, a little more than its domestic output of 77.5 bn cm. However, the nation faces a natural gas shortage of up to 70-110 bn cm by 2020, according to the 2009 Energy Development Report published by the Chinese Academy of Social Science, and up to 400 bn cm by 2030.[200]

To sum up on the Russian-Chinese energy cooperation, it is worth noting that it involves financial and particularly credit mechanisms. Moreover, with the global crisis, Russia frequently calls for moving away from the US dollar for future trading. As China and Russia have, respectively, the first and third largest currency reserves in the world, a broader use of national currencies in the two nations' bilateral transactions, which totalled to $50 bn in 2008 and expected to reach $ 60bln or even $80 bln before long, is a possibility the partners should seriously consider.

[200] Shuxin, Lin (2009) Trends of Northeast Asia natural gas market after financial crisis// Northeast Asia Petroleum Forum 2009. Tokyo: IEEJ. November.

To watchful warnings in the West, Chinese experts argue that expanding Sino-Russian energy cooperation will inevitably intensify the involvement of other foreign partners: "There will be only commercial competition without big-power rivalry in the development of the energy industry there". Sino-Russian cooperation is expected to "bring about not only enormous economic returns, but have major social impact; it will not only promote prosperity and stability in Northeast Asia, but it is conducive to peace and development in the world as a whole". [201]

China in Central Asia: Implications for Russia

"On … energy front, the two countries [Russia and China] are … recording significant progress, but while bilateral cooperation is eminently natural and sensible, both countries face major strategic problems in their future geopolitical relations with each other".

Marketos, Thrassy N. (2009) China's energy geopolitics. The Shanghai Cooperation Organization and Central Asia. London and New York: Routledge.p. 25.

Attempting to secure rapidly growing energy needs, some developing economies are trying to walk a fine line in order to avoid criticism by the West for their indirect support to 'rogue regimes' in Africa, Southeast Asia, Middle East, Latin America, and elsewhere by virtue of maintaining energy ties with them. Even sharing the West's normative concerns, developing economies dependent on energy import have rather limited options at their disposal, and therefore are forced to master their energy policies upon the grounds of 'pragmatic engagement'. China's foreign energy policy is by far the most telling example of this kind.

Since both Russia and China have certain interests in Central Asian energy sector, it is interesting to see to what extent those interests are overlapping and what the implications of the diverging approaches are.

In the recent years, China has remarkably activated its efforts in Uzbekistan, Kazakhstan and Turkmenistan. Throughout 1997-2008, there have been 58 cases of Chinese investments in Uzbekistan, 41 – in Kazakhstan, and 4 – in Turkmenistan's oil and gas sector.[202] By some estimates, Chinese companies control 23 per cent of

[201] Yishan, Xia (2000) China-Russia Energy Cooperation: Impetuses, Prospects and Impact. Japanese Energy Security and Changing Global Energy Markets: an Analysis of Northeast Asian Energy Cooperation and Japan's Evolving Leadership Role in the Region. China Institute for International Studies, Center for International Political Economy, James A. Baker III Institute for Public Policy Rice University.
[202] Chin-wei Yu and Cheng-pang Hsu, The geopolitical distribution of PRC's energy diplomacy: Evidences from MNC's investment and governmental behaviors// Presented at 51st Convention of ISA. February 17-20, 2010.

Kazakhstani upstream oil sector, as of 2009.[203] In 2009, CNPC bought 48 per cent of Kazakhstan's 5th largest oil producer Mangistaumunaigaz, in October 2009 China Investment Corp. (CIC) purchased 11 per cent ($939 mn) of Razvedka I Dobycha Kazmunaigaz (subsidiary of Kazakstani NOC Kazmunaigaz).

With Central Asian countries, China shapes energy cooperation upon a 'money-for-carbons' pattern. In August 2009, China allocated some $10 bn for investment into Central Asia. That is in addition to the approximately $10 bn already invested in Kazakhstan and $3 bn invested in Turkmenistan. Among the recent developments is China's $4 bn loan on preferential terms to Turkmenistan's state gas company for the development of the South Yolotan gas field. China is also making efforts to invest in hydroelectric power projects in both Tajikistan and Kyrgyzstan; in the latter cases, albeit, often in direct competition to Russian companies.

Interestingly, but the statistics of the total cases in energy sector of these three CA states show an unprecedented peak for 2005 (70 cases, as opposed to 10 in the preceding and 8 in consequent years, respectively). One of the explanations to be considered in this regard is Russia's decision on the ESPO's routing as satisfying not only China's, but other APR countries' needs.

China's efforts to secure energy supply form Central Asia have already started yielding fruits. A 960 km oil pipeline, constructed by CNPC from Atasu (Kazakhstan) to Alashankou, (China's Xinjiang Uighur Autonomous Region (XUAR) became operational. Within about two years this pipeline network will extend 3000 km to western Kazakhstan to allow exports of 1 mn b/day. The CNPC has lent the Kazakhstan's state-controlled KazMunaiGas $5 bn, bought rights to several Kazakhstani fields and made preliminary agreements for oil and gas development in Turkmenistan. A natural gas pipeline from Turkmenistan through Uzbekistan and Kazakhstan was put into operation at the end of 2009. Eventually it will carry 30 bn cm/y of Turkmen and Kazakh gas to western China. To fill it, CNPC has also recently agreed to explore for natural gas near the Aral Sea in a PSA with two other companies.

As the map below presents, China is involved in a range of oil and gas pipeline projects originating in Russia, Kazakhstan, Turkmenistan, Uzbekistan, Iran, Myanmar, etc. Speaking on the facet of security considerations, there is a certain extent of concern

[203] Koksharov, Aleksand (2009) Resursnyi pylesos// Expert. On-line Edition. October 19, 2009 < http://www.expert.ru/printissues/expert/2009/40/resursnuy_pylesos/?subscribe>

among the observers whether the routes from Central Asia (running through Xinjiang region) through Southeast Asia and the South China Sea are secured.

Map 11 China oriented pipeline projects.

Source: Predment mnogogazovogo potrebleniya// Kommersant № 234 (4289). December 15, 2009.

The Turkmenistan (188 km) – Uzbekistan (525 km) – Kazakhstan (1293 km) – China (4860 km) gas pipeline stretching from Turkmenistan to China's Xinjiang region where it is connected to the West East gas pipeline was launched on December 14, 2009. Starting in 2010 from approximately 13 bn cm/y, the $ 20 bn cost pipeline will reach its projected capacity of 30 bn cm/y, or even 40 bn cm/y (based on provisions of the agreement between Turkmenistan and China of June 2009) by 2013 and will be operational during 30 years.[204] The price China will pay for Turkmen gas was not disclosed. Turkmen government sources described it as a "market based". As far as is known, Turkmenistan and China still disagree on the price for Turkmen gas. The media speculated that China was ready to pay much less for it than Gazprom, namely $100-130 cm versus Gazprom's offer of $280.

[204] Turkmenistan.Ru. News. Accessed December 16, 2009 <http://www.turkmenistan.ru>

The TUKC has stirred a 'winner-loser' type debates about the implications of this project. In words of the President of Turkmenistan "the construction of the Turkmenistan-Uzbekistan-Kazakhstan-China (TUKC) gas pipeline was not only a mutually advantageous economic and commercial project", which will become "a major factor for energy security in Asia and strengthen continental political and economic ties in the near future." [205]

Much of the analysis has stated that while Chinese influence and its possibilities for further imports are to be boosted by the TUKC project, the chances for an agreement on Russian gas export pipelines to China may decrease, but the reality is not so linear. The Russian official voice on the TUKC's completion has been positive carrying that the pipeline does not seize Russia's market or intensifies the completion with China for CA resources. It was even speculated about the possibility for the TUKC to "…transport natural gas produced both in Turkmenistan and in Russia ... It is difficult to transport natural gas produced in both the western Siberian region and Russia's European part, so the China-Central Asia natural gas pipeline will perhaps act as a 'key' to addressing the issue." On the other hand, it was opined that through the commissioning of the Turkmen gas pipeline US and European energy diplomacy in Central Asia "has been rendered a lethal body blow." [206]

Using the categories of zero-sum game, the pipeline is China's gain, and is a loss for Europe, which in turn - bearing in mind Russia's Nord Stream and South Stream aspirations - can be Russia's gain. Objectively speaking, China's 'going-out' energy diplomacy and policy of energy import diversification affect Russia's policy making in all three – Europe, CE, and NEA – directions, but the ramifications are not entirely negative.

Russia – Japan

Despite the fact that Russo(Soviet)-Japanese energy cooperation dates well back to the outset of the XXth century with certain positive records throughout the 1970s, it has long been affected by a lack of mutual trust.[207] Furthermore, the Japanese partners became exceptionally watchful after a number of unpleasant experiences in the particularly turbulent times after the USSR's demise.

[205] Largest gas pipeline of XXI century put into operation. December 15, 2009 <http://www.turkmenistan.gov.tm/_en/?idr=1&id=091215b>
[206] Bhadrakumar M. K. (2009) China resets terms of engagement in Central Asia: Energy and Great Power Conflict// The Asia-Pacific Journal. 52-2-09. December 28.
[207] For a detailed analysis see, for example, Russel (1976), pp. 155-170.

Aiming at conducting an equitable analysis, it is important to bear in mind that Japan`s contemporary perception of Russian energy policy is diverse and can perhaps be best explained as informed by the interaction of opinions at two layers: official circles and business community. The official sentiment is yet influenced by the territorial dispute. Notwithstanding the fact that Japan made a decision to divide between politics and economics, or, in other words, to pursue a resolution of the territorial issue separately within a proper framework and through appropriate tools without letting this unsettled bilateral question hamper other fields potentially attractive for cooperation, the problem, it must be admitted, still looms in the officials' minds and therefore affects Japanese policy towards Russia.

That said, Japanese official views are also affected by Russia's behaviour. The telling examples are the tangled process of decision making for the ESPO routing (supposedly, stirred what was coined 'Japan – China scramble' for Russian oil) and the notorious case of Sakhalin II where Japanese companies were bereft of half of their initial stakes, which created a generally negative perception of Russia as a partner for energy cooperation.

On the other hand, the METI's White Paper on Energy (2007) underscored the significance of energy cooperation with Russia. That is to say, three out of six energy projects listed in the document as of the highest importance to Japan's energy security relate to Russia: Sakhalin I and II (where Japanese companies are active participants since long ago), and the ESPO project (a project of more recent Japan's interest).

A brief reference to figures on Japanese business' involvements into overseas energy projects also provides some noteworthy information. For instance, the stakes of Japanese companies in the Russian Sakhalin I and II projects are 30 per cent and 22.5 (50, prior to Gazprom`s entry) per cent, respectively. Meanwhile, in the Azerbaijani Azeri-Chirag-Guneshli (ACG) project Japanese companies hold less than 14 per cent stake (Inpex 10 per cent, Itochu 3.92 per cent), and in the BTC Pipeline project they possess less than 6 per cent (Inpex 2.5 per cent, Itochu 3.4 per cent). Obviously, Japanese companies have a comparatively stronger footing in Russia-based energy projects.

To be fair with regard to the notorious case of Gazprom's way into Sakhalin II, cuts in stakes of the Japanese companies in other overseas projects were much more

considerable. For instance, in 2006, Inpex's stake in Iranian Azadegan project shrunk to 10 per cent, and in 2008, the stake of Inpex Holdings Inc. in Kazakhstani Kashagan project plummeted to 7.56 per cent.[208]

Quite naturally, Japanese business views Russian energy policy from a more practical standpoint. Masumi Motomura,[209] Chief Researcher of the Oil and Gas Business Environment Research Group at Japan Oil, Gas and Metals National Corporation (JOGMEC), [210] opines that Russia`s contemporary energy policy enables foreign energy business operations. Furthermore, when compared to other energy-suppliers (Kazakhstan, for instance), Russia, in his view, handles energy affairs rather fairly. Motomura draws attention to how the Sakhalin II project, in which Mitsui and Mitsubishi are investors, has been finally settled. The impartial language of numbers tells that Gazprom purchased the controlling share in the Sakhalin II for $7.45 bn. By selling the stake to Gazprom, foreign investors not only recouped their expenses, but did reap a satisfactory benefit.

Satoshi Sakai,[211] whose company is also directly involved in development of Sakhalin II, expressed a similar view about the deal between Gazprom and foreign investors in the project. Additionally, while commenting on the Japanese energy companies' business strategy, especially in the light of rising competition from the Chinese corporations, the expert puts a question mark over the ability of national upstream corporations to live up to the government's ambitious goal of producing as much as 40 per cent of the country's oil needs from Japanese-owned oilfields by 2030. In this regard, the Far Eastern projects seem to be one of the real means in fulfilling this aim.

Continuing on the facet of Japan's sentiment about Russia's energy policy, the Managing Director at the IEEJ Kensuke Kanekiyo, [212] observed that over the past several years Russia's position in the Japanese market has changed dramatically to the extent that at present Russia is Japan's sixth largest supplier (following right after the ever significant Middle Eastern countries). Pondering over the reason for such a prominent shift, Kanekiyo noted that perhaps the key role played the fact that the Russian government has made itself involved in every undertaking in the eastern part

[208] JOGMEC 50 %, Inpex 45 %, Mitsubishi Corp. 2.5 %, and Japan Petroleum Exploration Co. 2.5 %
[209] Interview conducted on January 28, 2008. 12:30 – 13:30 pm. Office of JOGMEC, Tokyo.
[210] Japan Oil, Gas and Metals National Corporation (JOGMEC) was established on February 29, 2004 pursuant to the Law Concerning the Japan Oil, Gas and Metals National Corporation, which was promulgated on July 26, 2002. JOGMEC integrates the functions of the former Japan National Oil Corporation, which was in charge of securing a stable supply of oil and natural gas, and the former Metal Mining Agency of Japan, which was in charge of ensuring a stable supply of nonferrous metal and mineral resources and implementing mine pollution control measures.
[211] Interview conducted on March 7, 2008, 15:00 – 16:30 pm. Office of Mitsubishi Corporation, Tokyo
[212] Interview conducted on March 5, 2010, IEEJ, Tokyo.

of Russia. In contrast with the EU, in Japan (as well as in other NEAs) this aspect is assessed positively as a safer environment for large-scale and long-term energy projects is then anticipated. NEAs' satisfaction with the Russian government's (as compared to private business') prominent role may be explained partially by a similarity with the traditions within their national systems. Also, and this may even be more important, the NEAs' appear to prefer dealing through the channels of high politics as a more reliable means to secure their critical energy supply. This looks as an absolutely solid motivation for the economies crucially dependent on energy import.

Indeed, with the oil shipments from Sakhalin I (via De Kastri) and Sakhalin II (from Prigorodnoe), for instance, in 2009 Russia provided approximately 6 per cent of Japan's imports. The deliveries of the ESPO's oil commenced eventually on March 1, 2010 from Kozmino port are to further increase Russia's role as Japan's oil exporter.

Regarding the ESPO project, initially Japan took the position that the pipeline's economics is not a principal issue since the governments (Russia, Japan and other countries concerned) can provide long-term credits, tax exemptions and subsidies to lower the pipeline's cost. This perspective led Japan to focus on two aspects at the negotiating table: exploring reserves, and funding of feasibility study and construction itself.

Since the Sakhalin II plant launch in 2009, Russian LNG covers about 7 per cent of Japan's LNG imports. As it is known, domestically Japan has no developed pipeline infrastructure, and given its geographical location, gas imports only take place in the LNG form. Nonetheless, various ideas with regard to possible forms of cooperation in gas sector are under consideration. In May 2009, Gazprom and Agency for Natural Resources and Energy of Ministry for Economy, Trade and Industry, Itochu Corp., and Japex signed a MoU envisaging a joint project on transportation, refining, marketing, and exporting to the APR gas of the Sakhalin-Khabarovsk-Vladivostok pipeline, the first phase of which is expected to be completed by the end of 2011.

After a rather prolonged period of no noticeable moves, bilateral cooperation in energy sector has received renewed attention in April 2008. The parties expressed their adherence to the Initiative for the Strengthening Japan-Russia cooperation in the Far East Russia and Eastern Siberia (the Eastern Initiative) proposed in June 2007 by then Prime Minister Abe. Russo-Japanese energy cooperation was said to be further

enhanced through the official, as well as business-to-business interchanges. It has been agreed on Japanese companies' more active involvement into implementation of large energy projects in East Siberia and the Far East, in particular, in the ESPO project.

The establishment of a Russian-Japanese joint venture between JOGMEC and Irkutsk Oil Company in April 2008 became a step towards the practical implementation of the Eastern Initiative. INK-Sever JV was founded with the parties' 49 per cent and 51 per cent stakes, respectively. In May 2008, JOGMEC announced its plans to launch cooperation with Rosneft in the area of the ESPO's implementation and Sakhalin offshore projects' development. Later on, in September and October 2008, it had been reported on two other deals by JOGMEC with Russian United Oil Group[213] and Sakhatransneftegaz. The joint ventures – with Japanese 49 per cent and Russian 51 per cent – are aimed at oil and gas geological prospecting, exploration and development in Krasnoyarsk krai, Irkutsk oblast and Yakutiya. These JVs are anticipated to broaden the opportunities for Japanese businesses' participation in the ESPO.

It is worth noting that in recent years the Japanese government has activated its initiatives towards the Russian Far East and Eastern Siberia. The Initiative for the Strengthening Japan-Russia cooperation in the Far East Russia and Eastern Siberia is aimed to move forward cooperation in eight sectors, including energy. The bilateral Japanese – Russian forum Energy and Environmental Dialogue in Niigata (Japan) initiated by Japan and held annually from 2008 is yet another illustration of Japan's effort to enhance bilateral ties in the energy sector. Being, naturally, more interested in securing energy supply, and committed to its rather strict climate change policy, Japan additionally includes a comprehensive environmental agenda in the event's discussions. Overall, a somewhat more constructive approach towards Russia can be noticed from the local governments in the littoral areas of the Sea of Japan. Such a turn can be seen as stirred by the possibilities opened up by the ESPO pipeline construction and implementation of a number of projects for the 2012 APEC Summit in Vladivostok. Japanese companies expose their interest to expand supplies of materials and equipment, as well as to boost technology transfer.

[213] E.S.: Subsidiary to En+Group Holdings which in turn is a part of Bazovyi Element run by Oleg Deripaska.

Apparently, Russian supply allows Japan to diversify geographically its oil and LNG imports away from volatile Middle East and exhausting Southeast Asian reserves towards sources geographically close to Japan. [214] It can possibly also help shift energy supply away from oil and more to towards natural gas. Bilateral energy cooperation is mutually beneficial. Given that Russia experiences a tough situation with energy pricing in the Chinese market, Japan (and Korea) are especially attractive consumers as they can significantly improve market parameters for Russian oil and gas supplied to Asia.

Russia – Korea

In her previous publications and PhD dissertation, [215] the author held that among the NEA states it is Korea that has consistently been advocating the idea of the institutionalisation of the intra-regional energy cooperation and promoting the regional multilateral frameworks while other major NEA powers – China and Japan – have been mostly favouring a bilateral format. [216]

Unlike relations with China and Japan, Russian ties with Korea are not affected by any grave issue. Both Russia and Korea seem to be viewing energy cooperation in a win-win mode. Russia pursues diversification of energy export, Korea, in turn, sees the possibilities for the optimization of energy export geography (re-orientation from high dependency on the Middle East), improvement of structure of energy mix (increase of gas share), and the development of the national gas transportation network (by means of gas pipeline stretched from Russia).

When compared to Japan and China in terms of power and financial resources, Korea finds itself as possessing somewhat inferior capabilities. Therefore, Korea follows an approach whereby it combines the more efficient tools practiced by the other two. That is to say, Korea employs the Japanese experience of ODA provision and practices mechanisms of the governmental support for the NOCs. According to the Korea Institute for International Economic Policy (KIIEP), the government attaches a great importance to strengthening energy ties with Russia. Korean NOCs – Korean National Oil Corporation (KNOC) and Kogas – are assigned to play a pivotal role in this

[214] Koyama, Ken (2009) Energy geo-politics of Russia and the global energy security. Tokyo: IEEJ. July.
[215] Shadrina, Elena (2008) Energy Cooperation in Northeast Asia: an insight into frameworks and dimensions// Journal of Northeast Asian Studies. Vol. 14. pp. 143-159; Shadrina, Elena (2009) Energy Cooperation in Northeast Asia: Insight into Impact on Region Formation. PhD Dissertation. Graduate School of Modern Society and Culture, Niigata University, Japan. pp. 105-108.
[216] To a similar conclusion the Chatham House's experts have arrived. Refer to: Lahn, Glada, Paik, Keun-Wook (2005) Russia's Oil and Gas Exports to Northeast Asia. Chatham House. p. 6 <www.chathamhouse.org.uk>

partnership. Likewise, Korea considers China's approach of establishing the intergovernmental strategic partnership with Russia and maintaining consistency in the foreign policy towards Russia as practically efficient and expedient policy mode.

The bilateral energy cooperation has gone ahead thanks to KNOC and Rosneft partnership. The companies have concluded an agreement to develop the West Kamchatka shelf. For two reasons, this deal was widely considered as a good model for the rest of NEAs aiming at pragmatic energy cooperation with Russian state-owned oil companies. Firstly, KNOC could successfully avoid a provision on the strategically important deposit Russian legislation. Secondly, the Koreans have agreed to two key conditions and thus could meet Rosneft's expectations for the partnership. The first condition is a 60:40 share division, whereby Rosneft holds a 60 per cent share of this project. This number is important for Rosneft, which prefers to promote projects with foreigners from a majority position. The other condition is that the Korean company will invest in prospecting operations, taking on 100 per cent of the risk in exploration, and Rosneft will be able to claim a share of the revenues once commercial production begins. On the whole, Kogas' general reputation as a convenient and receptive to Gazprom's terms partner strengthens the company's competitive status as a potential partner to Russian energy companies.

In the oil sector, Korea originally has shown no interest in the ESPO project, but later changed its attitude to the extent that, as was noted, it became the largest recipient of the cargos sent from the Kozmino oil terminal.

In October 2006, Russia and Korea signed an intergovernmental agreement concerning conditions of Russian gas deliveries to Korea. Pursuant to the agreement, Gazprom and Kogas were identified as the companies authorised to oversee gas deliveries from Russia to Korea. Initially, the Cooperation Agreement between Gazprom and Kogas was signed in May 2003 and extended for another five years in 2008. A seemingly breakthrough in inter-state gas relations happened in September 2008, when Gazprom and Kogas signed a "gas package" envisaging supplies of 10 bn cm/y over 30 years starting from 2015. There were plans to build a gas pipeline to Korea from Vladivostok traversing the DPRK in 2011–2014 (inter-governmental agreement on Cooperation in gas industry and MoU on gas exports), and construct a gas chemical plant and an LNG facility near Vladivostok. The next move was on June 23, 2009, when Gazprom and Kogas signed the Agreement on Joint Study for Gas

Exports to Korea envisioning an extension of Sakhalin-Khabarovsk-Vladivostok gas pipeline to Korea.

It albeit should be noted that prospects for any crossborder pipeline infrastructure are in immediate connection with the DPRK related agenda. As it is known, since Lee Myung-bak took over the office, the ever erratic inter-Korean relations were further deteriorating. As of time of the writing, the two countries are facing a severe impasse. The confrontation has started after Korea blamed the DPRK in the Korea's warship Cheonan accident, which occurred near the maritime border with the DPRK after an explosion. The DPRK has denied any involvement and threatened all-out war in case sanctions were imposed. The situation entered a new round of escalation after the Six party talks members (with China yet vacillating) halted relations with the DPRK, which is critically dependent on foreign aid. Being highly concerned about peace in the region, the Six Party Talks members (excluding the DPRK) engaged into the conflict settlement, however no clear prospect for success is seen as of now. Evidently, lingering security issues thwart intra-regional cooperation.

Despite the fact that overall environment for the international relations in the NEA remains strained by such complex nodes as the territorial disputes and proliferation issues, Russia's linkages with NEA in the energy realm are becoming increasingly vibrant.

Japan is Russia's traditional partner, who largely contributed to the development of the Far Eastern energy projects, and demonstrates its interest to expand further the energy cooperation. With China, Russia has most diversified energy contacts, including those in nuclear and electricity sectors. Nonetheless, the bilateral energy dialogue is often formatted to China's seemingly larger benefits. The case of a particular reference is price for Russian energy resources. China has in fact managed to gather more negotiating power over Russia thanks in particular to its deeper involvement with the CAs, but also to China's stronger financial capabilities, which have been extended to Russian Rosneft and Transneft in the form of loan. Perhaps, the larger format of the SCO energy community may help Russia level off its status against China. Finally, Korea, who initially appeared relatively less – compared with China and Japan - interested in energy cooperation with Russia has eventually engaged into oil and gas ties with Russia.

Rather differing features of Russia's energy ties with each of the NEAs can be combined under a broadly defined pattern where the inter-governmental dialogue determines the overall discourse. That is why the spatial image of energy cooperation in NEA can best be presented in a hub (Russia) and spoke (the rest countries in the region) perspective. There are yet only a few multilateral forums of mainly ad hoc nature that inform the framework for the Russia-NEAs energy cooperation. In the near future, bilateral formats and some external frameworks (ASEAN, SCO, etc.) are more likely to provide the grounds for energy cooperation among the NEAs.

3 Policy Paradigms` Transformation

"The global energy system is in the midst of a major transformation,
and Russia's energy power is the key factor in the process.
New consumers in Asia have joined their Western counterparts in rapidly growing energy demand,
and the producers, among them Russia, have gained considerable influence
over global energy issues."

Andreas Wenger/ in Russian energy power and foreign relations. London and New York: Routledge, 2009. p. 240.

While analysis routinely informed by normative perceptions maintains that Russia is using energy as a political tool, a comprehensive examination discloses that Russian foreign energy policy involves numerous manifestations, which originate in the fact that in global energy affairs Russia's status can be characterised as a producer, an exporter, a consumer, and a transit state; importantly, all the time starting with "one of the world's most significant". Subsequently, Russia's foreign energy policy is *a priory* shaped by diverse types of factors and informed by various sets of variables of both domestic and external nature.

Historically rooted in the intellectual debate about Russia's role in the world and its way of development, the "whether East or West?" dilemma naturally has certain projections on Russia's foreign energy policy. Nonetheless, the contemporary Russian energy policy is no longer a choice between staying West or going East; a combination of (geo)-political-economic considerations has resulted in a multidimensional policy. Bearing in mind that Russia's counterparts (in Europe, Central Eurasia and Northeast Asia) pursue energy security through diversification of sources of import/markets for exports, there is certain degree of compatibility between the policies of Russia and other states concerned.

Looking from Russia's prospect, Asianization as a policy course is deeply pragmatic. There are objective factors that increase the NEA's market attractiveness, such, for instance, as the current significant and projected to grow further energy demand as opposed to the stable (or declining) trend in the EU demand. Another particularly positive aspect for Russia is the geographical proximity of the NEAs, which grants Russia a direct access – without transit and intermediary issues involved - to the NEA consumer markets. Furthermore, consideration of the resource basis, which in the

Russian east is largely untouched (in contrast to intensively exploited fields the provinces of Western Siberia), but believed to contain huge reserves add to the list of the Asian markets' advantages. The logic of advancing the social and economic development of Russia's eastern regions through the synergic effect of enlarged international energy cooperation with the NEA countries is also incorporated in the policy making process.

The stability and dynamism of international energy relations can only be achieved through strategically oriented cooperation built upon comprehensive institutional and legislative frameworks. From this perspective, Russian energy relations with Europe and Central Asia - as compared to those with the NEAs – are established more solidly. However the ongoing remapping of the pipelines' routes in the west and unfolding large-scale projects in the east of Russia may significantly alter Russia's present interdependency with Europe. This change towards Asia will inevitably be accompanied by a gradual institutionalisation of frameworks and instruments. Nevertheless, from any prospect, there seems to be no grounds to formulate the question about Russia's foreign energy policy geographical orientation in a dramatic – *whether .. or …* - way. Europe will remain a key energy importer for Russia for the years to come, while Asia-oriented cooperation will be steadily expanding.

The main findings of this work - following the logic of the questions formulated in the Introduction: what, why, and how has changed in Russian foreign energy policy can be summarised as follows. With regard to *what* the most significant change is about: it is a turn towards *Eurasianism*; addressing the question *why* such a turn has occurred, considerations of *Pragmatism* are defining a major policy shift; lastly, dwelling on *how* Russia's foreign energy policy has changed, it has acquired features of *Multipolarity*.

These three major perspectives can be identified within Russia's foreign energy policy discourses towards all three geographical focuses under scrutiny: Europe, Central Eurasia, and Northeast Asia. The most important facets of transformation as pertaining to each dimension are discussed in a greater detail in the subsequent sections.

3.1 Russia – EU: Assured Supplier to Reliable Partner

Assessing Potential for Dialogue to Succeed

In order to better succeed in the matters of international cooperation, the parties concerned engage into a dialogue. As the international relations theory reads, the following prerequisites are necessary for the dialogue to be launched, and the following aspects should be met for the dialogue to be constructive:

1) preferences of the sides concerned should be clearly defined and to a certain extent be converging (power and interest groups' interests, internal political process, policy making pattern, etc.);

2) existing environment for the dialogue should be assessed and its desirable parameters should be formulated (energy market structure; type of power relations (hard/soft), character of interdependence (symmetrical/asymmetrical), etc), and

3) negotiation process should be formatted in a way enabling the highest possible positive outcome from application of the two sides' bargaining power (power relationship, political process, qualities of actors, information, political decisions, etc).

Taking the case of the Russia-EU energy dialogue, albeit the parties' preferences have somewhat differing dimensions, the two sides accentuate similar areas of main importance.

Firstly, *investment*. While the EU mainly seeks the means to ensure investment in supply diversification and new cross-border transmission infrastructure construction, Russia is additionally concerned with augmenting the investment volumes into the resources' exploration and production, and energy transport infrastructure expansion. Furthermore, pursuing their goals, the EU prioritises the rules of fair competition and market liberalization, while Russia appears set on continuing - albeit with a number of alterations – a line of state energy governance. Although since the 2008 crisis the Russian government has repeatedly stated its resolution to improve the investment climate so that more foreign capital could be invested in the Russian energy sector, the creation of transparent, predictable and guaranteed against sudden regulatory alternations environment yet remains a task. This is therefore a very timely moment for

the EU counterparts to formulate and express their preferences with respect to the desired terms for their activity in the Russian energy sector.

Secondly, *innovations and technology.* In the realm of energy cooperation, Russia is eager to expand technical and technological ties that enable the development of green fields located in the Russian continental shelf and in remote Eastern provinces with harsh climatic and difficult geological conditions. From this angle, the European companies are attractive potential partners to the Russian energy majors. Importantly, Russian tax and customs norms envisage, for instance, certain tax and duties breaks and exemptions for the importing of machinery and technologies, which are vitally important for Russian economy development but not produced domestically.

Thirdly, *energy efficiency and energy saving.* The EU has traditionally attached high importance to the issues of sustainable and environmentally friendly development[217], meanwhile Russia has just stepped up its efforts in this area.[218] In this particular realm, for the foreseeable future Russia is to follow a "catching up" process in the fields on clean efficient technologies in energy production, transportation, distribution and use.

Turning to the overall environment for the bilateral dialogue, in a situation when the mechanisms of internationally institutionalised frameworks, such as the ECT and the WTO, cannot be employed, and the PCA has elapsed, energy dialogue stands as the most expedient means to govern the bilateral energy partnership. Launched back in 2000 in response to Russia's refusal to ratify the ECT and designed as measure to introduce some degree of coordination into the bilateral energy ties, the dialogue is functioning in the form of a Permanent Partnership Council (PPC) and joint thematic groups (on Energy Strategies, Forecasts, and Scenarios, Energy Market Developments, and Energy Efficiency).

The Russia-EU negotiation process has often stumbled over the block coming from both sides. For the EU, a major problem in pursuing the energy dialogue with Russia was its failure to speak "with one voice". In this sense, the ratification of the Lisbon Treaty calling for more common policies and actions, and creating a new joint European External Action Services (EEAS), as well as the adoption of the 3rd Energy Package envisaging among other measures the establishment of an Agency for

[217] Green Paper European Strategy for Sustainable, Competitive, and Secure Energy (March, 2006); Energy Policy for Europe (January, 2007), Action Plan 2008 and 2009.
[218] Federal Law N 261-FZ On Energy Saving and Improving Energy Efficiency, adopted 23 November 2009.

Cooperation between Energy Regulators (ACER) may help achieve a greater coherence at the EU level through a closer cooperation with national regulatory authorities (NRAs), particularly over cross-border issues.

In relations with the EU it is also important for Russia to bear in mind that the EU's system of supranational governance establishes certain specific extensions that influence energy policy making of the partner concerned. That is to say, albeit Article 194 (2) TFEU stipulates that a member state can chose between different energy sources and the structure of its supply, Articles 192 (4) and 192 (5) TFEU subordinates energy policy to two other main Union policies: the achievement of the internal market and environment policy.[219]

Apparently, for Russia negotiating an energy agenda with the EU was not such a satisfactory process due to the grounds that the dialogue is primarily constituted in a way to ensure best the EU's preferences and satisfy mostly the EU's expectations from the energy partnership. Having comprehended this, neither Russia's ECT discourse nor its other decisions in the realm of energy, appear any longer as purely assertive or squarely aggressive. For this very reason – to become an equal actor in a negotiation process – Russia attempts to shape a new basis for the energy partnership. Again, breaking down an existing system with certain evident flaws before a new solid alternative is introduced may be seen as unconstructive approach but, still, to assess Russia's nonparticipation in the existing international frameworks as an indicator of its deliberate unwillingness to develop energy cooperation within a multilateral context is simply erroneous. In reality, Russia does undertake attempts to become a party to a regulatory system, which would take into account its prospects. One of the telling evidences to this is a Conceptual Approach to the New Legal Framework for Energy Co-operation proposed by Russian President on April 21, May 2009.

New Dimensions to be Taken into Account

There are several aspects that recently came to light and stand to impact the bilateral Russia - EU energy dialogue in one or another way. In no specific order, these new dimensions can be presented as largely shaped within the bilateral discourse, informed by developments of more or less regional reach (mainly, within the CIS context), as well as expedited by some global trends.

[219] Consolidated Version of the Treaty on the Functioning of the European Union // Official Journal of the European Union. 9.05.2008 < http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:115:0047:0199:EN:PDF>

As it is known, Russia has set modernisation as a prime policy aim defining an entire theme of structural changes in every segment of the national economy. In this regard, the fact that the EU promptly supported Russia by stepping forward with a program called Partnership for Modernization is promising for bilateral relations. This EU initiative absolutely complies with Russia's concerns about the means to invigorate economic development and composes solid grounds for enhanced bilateral cooperation.

Closely linked to the modernization program is the Russian government's concern about enhancing investment climate. On the side of practical steps, the government is seriously tasked with the development of a comprehensive mechanism favouring investment activity in Russia, including creation of a better business environment for the foreign partners. Among the stimuli under consideration, there are incentives on easing taxation, streamlining customs formalities, as well as measures directed at improving migration procedures, in particular, for skilled labour, etc. Also, a new round of privatisation of Russian large companies planned for 2010-2011 appears to be a real opportunity for the European business to reassess the prospects and opportunities for the expansion of its ties with and in Russia.

Of a regional scope, two particular aspects, which may impact the overall discourse of Russia - EU energy dialogue, have risen prominently. The long-planned Customs Union between Russia, Belarus and Kazakhstan was officially launched in January 2010. There are still quite considerable complications on the account of the customs regulation's harmonisation, but once the project fully comes into effect (from July 2010), some structural changes in the Belarusian and, possibly, Russian downstream sectors may well be anticipated. Following the spirit of deeper integration, the formation of the Customs Union - via mechanisms of the economy of scale and international division of labour - exposes better opportunities for the Russia - EU cooperation.

Additionally, the Russia – Ukraine bilateral discourse after the Ukrainian Presidential elections in February 2010 witnessed certain rapprochement. Ukraine's new government détente course in relations with Russia promises a more balanced format for the Russia - EU energy partnership. Ukraine's more cooperative spirit has seemingly found a positive reaction in Russia. While not all the signals from both sides can be taken seriously (for instance, Ukraine's proposition to participate in the Nord Stream and South Stream projects), some initiatives appear rather attractive

(cooperation between Gazprom and Naftogaz in the form of establishing a joint business unit, or three-party - including the EU - engagement into the modernization of the Ukrainian GTS). In general terms, stronger Russia - Ukraine relations would certainly enhance bilateral cooperation in the energy sector with positive spillovers on the Russia - EU energy partnership.

Of a more global scale, in 2009, Russia's stature as the world's largest gas producer was reportedly seized by the US. 220 The shift is certainly more than merely a matter of prestige. Rather, it has clear practical implications for Russia's energy strategy, and for that reason affects the EU. Evidently, the US' success in developing non-conventional shale gas production changes drastically its energy profile; from being an importer, the US turns into a self-sufficient gas producer, and possibly even to an exporter. Under such circumstances, Russia's largely US-oriented LNG-producing Shtokman project appears unfeasible. 221 Coupled with the decline in the EU energy demand, this may effectively signal a possibility for the second phase of Nord Stream to be abandoned. While there is nothing wrong with the market correcting Russia's strategic calculations (or miscalculations), given the scale of Russia-based energy projects, these shifts are certainly to impact major European energy related businesses, as well as to affect overall domestic industrial activity. It is upon these grounds that the time for assessing all the grand energy projects from a more united and economically sound perspective seems to be very ripe.

Of a more practical note, given the depth of energy interdependency between Russia and the EU, and taking into account Gazprom's recent problems with supply and strategic production and investment planning, it is obvious that a better consistency between the policies of major supplier and its key consumer is needed. Paying due attention and respect to the national regulatory frameworks in place, some means to improve the situation could still be discussed. For instance, a data exchange on energy demand and supply, production activity and investment needs, would allow the two sides to make well-considered and timely decisions and conduct the bilateral energy cooperation more efficiently.

[220] Albeit in March 2010, there were a number of statements that the US shale gas production data are very likely to be overestimated. The latter was explained by difficulties in collecting adequate information from numerous rather small-sized producers of shale gas.
[221] A final investment decision will now be reached in 2011 (instead of late 2010); the launch of pipeline gas supply from the field has been put back from 2013 to 2016; and the launch of the LNG phase has been postponed until 2017 (from 2014).

One more area of traditionally high importance to the EU and yet rising to prominence on Russia's energy policy agenda, which seems to be an especially promising area for the future Russia – EU energy dialogue is energy saving and energy conservation. Albeit in the past years Russia has undertaken certain steps (target-setting in the Energy Strategy 2030, law on technical standards, etc.), its policy still remains fragmentary. Once a more systemic approach in the area of energy saving and efficiency is introduced domestically, international cooperation will also become more constructive. In this case, possessing the expertise, technologies, and equipment that Russia needs, the EU will certainly be one of the key partners.

Evidently, concrete possibilities for a full-fledged Russia – EU cooperation in the energy sector do exist. Despite the Russia – EU energy dialogue can be characterised by weaknesses, this mechanism possesses undeniable strengths as well, and for that reason it has to be continued. At this point in time, it appears important to not let the threats originating in contemporarily loose institutionalization of the dialogue process and the patchy character of regulatory framework quench the opportunities for developing a more comprehensive cooperation between Russia and the EU.

Following the ratification of the Lisbon Treaty, the EU is to enter a new era of a common policy making. The EEAS authorised with a EU's common foreign policy mandate is to become a forum where that very "single voice" is to be formulated, a tribune to convey it from and a channel for the decisions' practical implementation. In this stage of setting the EU's common external policy, it is important to position the Russia-EU energy dialogue so as to assure that this framework's advantages are fully and efficiently utilised. Moreover, the creation of the Customs Union is a factor to be taken into account. This integration initiative is to a certain extent to influence the EU's Eastern Neighbourhood Policy. The both sides' involvements with the Customs Union constitute an additional agenda to be considered while formulating the new agreement for the Russia – EU strategic partnership. Moreover, perspectives for Russia – EU cooperation are to be defined taking into account developments in the international arena, for one, in the context of Russia's accession to the WTO.

To grasp the EU – Russia bilateral relations, it is important to analyse them as evolving in the changing environment at domestic, regional and global levels.

3.2 Russia - CE: Opportunistic Merchant to Businesslike Partner

While numerous studies continue to encapsulate Russia's behaviour in Central Eurasia into the Great Game scenario, this trite vision does not reflect the contemporary dynamics of Russia's involvement with the region.

On this matter, it is interesting to refer to one document recently made public. The document drafted in February 2010 by the Ministry of Foreign Affairs of the Russian Federation is entitled Program for Effective Utilization of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation.[222] Already from the title, and absolutely in harmony with Russia's most recent foreign policy course, the document's general spirit is highly pragmatic. Nevertheless, on the account of Russia's relations with Central Asian states and Azerbaijan as a means to enhance modernization and boost sustainable economic development,[223] the Program contains only one provision on energy cooperation: the enhancement of Russian business' involvement for the development of Kirgizstan's power sector. It is rather unlikely that it is an omission, then, may well be a testament of Russia's changed attitude towards CEs.

It would be both naïve and erroneous though to claim that Russia's policy transformation has occurred as a result of its own calculations only. Quite contrary, Russia's policy transformation is to a great extent the result of the CEs increasingly independent agenda on both regional and international levels. As noted above, the foreign policy of the Central Eurasian countries is underpinned by the principle of multipolarity, projections of which can be distinguished in the countries' energy policy. The CEs' allowed a larger involvement of foreign investors into hydrocarbons' exploration, exploitation and production, triggered active diversification of energy exports, and development of energy transport infrastructure. The circumstances for Russia's major departure from the post-Soviet period cooperation mode was that once the CEs have developed alternative energy export routes and developed new capacities, Russia, who formerly was withholding a significant portion of benefits from selling CEs carbons to Europe, was forced to bring about a new pattern for cooperation.

[222] Reportedly, the Program is already approved by the President.
[223] The overall context of the document and that particularly of the section 4, which touches upon the region under consideration.

What are the testaments of Russia's changed behaviour? Several criteria may be helpful. For long the most notorious inconsistency in Russia's energy relations with CEs – price for energy resources - is eventually eliminated. According to the new agreements, pricing has switched to the European market formula. Another noticeable change pertains to the volumes of Russia's imports from CEs. Importantly, the significantly decreased Russian purchases from Turkmenistan, for one, are the result of newly concluded agreements in accordance with Russia's proposals. These smaller imports are stipulated by the modestly recovering gas demand in the European markets and the improved situation with domestic production.

Analysing the contemporary Russia's energy policy in the Central Eurasian region, it is important to note that it is influenced by the activity of different types of actors at several at times overlapping layers.

In the larger context of Central Asia, if not cooperation, then coordination of interests with China became Russia's policy choice. This is especially evident in the cases of Russia's energy relations with Turkmenistan, Kazakhstan and Uzbekistan and with regard to the TUKC gas pipeline project.

In the Caspian region, Russia plays only a part in a play, the rules of which are formulated by a number of regional and external actors pursuing intertwined interests. Azerbaijan is one of the centres attracting an increasing attention. Explicit interests pertaining to energy sector can be distinguished through the foreign companies' involvements, such are the cases of UK's BP, Norway's Statoil, France's Total, Japan's Itochu and Impex, US's Chevron, ExxonMobile, Germany's RWE, etc. On the other hand, there are issues stretching into geo-political realm. From this angle, the Azerbaijan-Turkey discourse occupies a significant place. Turkey is one of the regional powers with expanding ambitions. Indeed, Turkey has multiplied efforts to play a larger role in Azerbaijan and Armenia détente and activated course on rapprochement with Armenia. While these moves directly affect Russia's status in the region, Turkey-Azerbaijan relations ahead of anything else define Russia's energy ties with Azerbaijan and, subsequently, Russia's stance at the European market. At the same time, for Russia the significance of alliance with Turkey originates in the latter's officially proclaimed a course on becoming a major energy hub for the transportation of gas and oil from the Caspian region, the Middle East and the Gulf to the European market. It yet remains to be seen, but before the Russia-Ukraine rapprochement began, there were

expectations that intensified Russo-Turkish contacts could result in realization of the Blue Stream II, which could replace the transit route for Russian gas exports to Europe through Ukraine. Similarly, in the oil segment, the projected Samsun-Ceyhan oil pipeline could potentially deliver oil from the Black Sea to the Mediterranean via Turkey enabling export's enlargement and solidifying Russo-Kazakhstani energy links.

Another prominent actor located in the Caspian, but notorious for shaking up the entire edifice of global affairs, is Iran. The importance of Iran for Russia comes from several areas. Firstly, it is Iran's nuclear program. On the one hand, certain responsibilities are incumbent on Russia as one of five permanent members of the UNSC. From this angle, Russia may have a certain influence on Iran. On the other hand, Russia is genuinely interested in Iran being free of the UNSC sanctions, as its oil and gas, and nuclear power sectors promise ample commercial opportunities for Russian private companies and state-owned enterprises. Secondly, currently an observer to the SCO, Iran seeks a membership claiming that this act is consistent with its 'looking East' foreign policy. Russia as one of founders and most influential power in the SCO could give a backing to Iran's petition for a smoother entry, but because of Iran's nuclear program it chooses a prudent position of neither support no opposition to Iran's accession. Thirdly, Iran is the world's second largest gas possessor and a member of the GECF. Already outstanding gas actors, the two may increase their influence in the global gas affairs, especially assuming that this organization evolves into an OPEC-like format. From this angle, Russia is naturally concerned about maintaining amicable relations with Iran. Even beyond the GECF format, cooperation with Iran may provide Russia with at least some guarantee that they will not be competing for the same export gas markets.

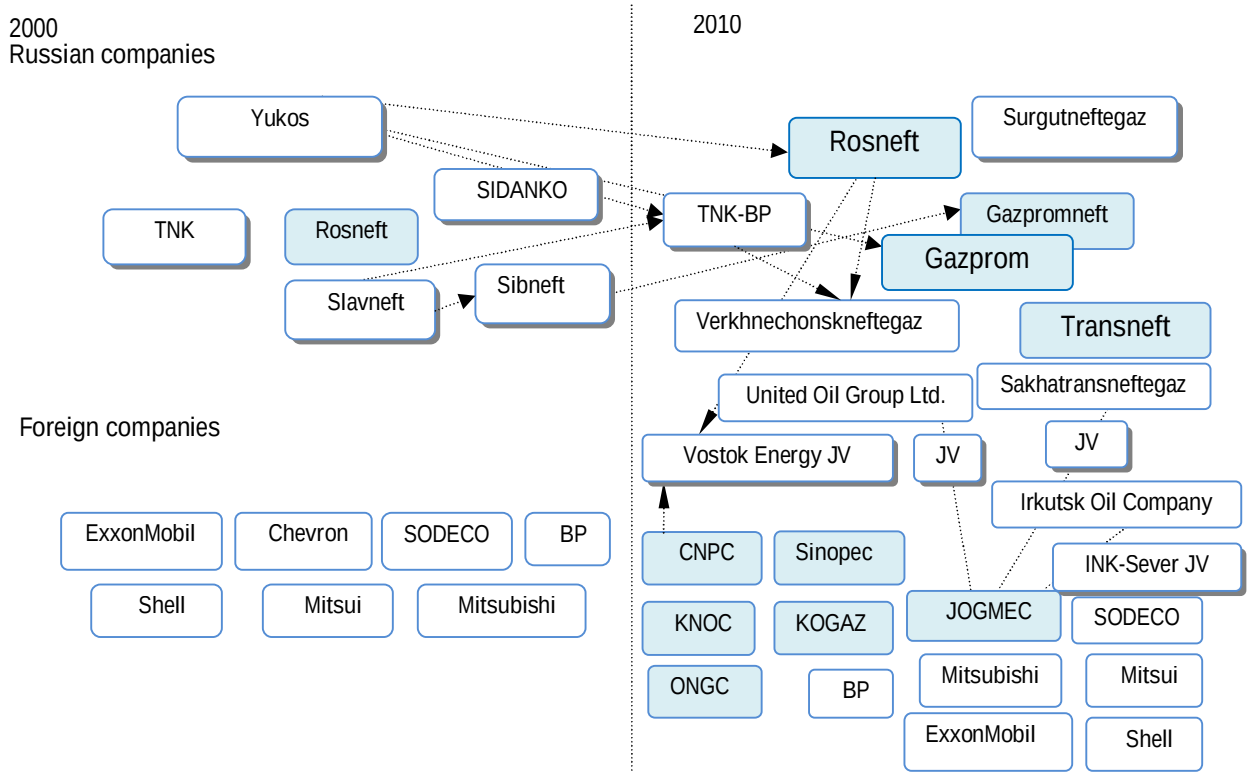
Needless to say, that to balance all these multidimensional connections is vitally important to Russia. In the situation of still mushrooming pipeline projects, for which a great part of the supply intake is envisaged as originating in Central Eurasia, Russia's very existence as Europe's major energy supplier depends on cooperation with Turkmenistan, Kazakhstan, Uzbekistan, Azerbaijan, and Iran, as significant producers and exporters, and with Turkey as a reliable tier of the to-be established energy transit chain. Overall, it may be concluded that Russia masters closer interlinkages with the regional powers in the CE for the sake of securing its pragmatic interests well beyond the regional borders, particularly, in Europe and China. In so doing, Russia composes a new cooperation pattern with the CEs; a pattern where Russia's ultimate benefits are

becoming less definite or even shrinking, depending on the counterparts' and third parties' involved policy course.

3.3 Russia - NEA: Inconsistent Actor to Mature State Entrepreneur

Asia was not a priority in Russian energy policy until the 2000s. Then, again, it was Russian private oil and gas business led by Yukos and inspired by Khodorkovsky who proposed a grand design for the international cooperation with China and North America based on Russian eastern provinces' energy resources. The narrative is well-known, in 2004 the state rather promptly redrew the plan revolving around Yukos' vision, but not so hurriedly embarked on its implementation. Making a principle decision about a spatial format of Russia's involvement with the countries of NEA – 'China card', 'China and beyond' or NEA – took several years. In the circumstances of lingering vagueness, the NEAs, in turn, were attempting to suggest Russia their visions for possible formats and offer various means for enhancing energy cooperation. While Russia was vacillating, the NEAs entered a 'scramble for Russian energy'. Once the decision was made and it became clear that the Russian government is set to play a key role in the development of the oil and gas sectors in the eastern part of Russia, the NEAs started demonstrating their interest. This very aspect – a possibility for the government-to-government (G2G) agreements as a means to guarantee energy security of both sides involved – played a positive role in the NEAs' aspiration to commence a larger participation in Russian eastern energy projects. There has been a significant increase in number of the NEAs-based NOCs and smaller business units entering oil and gas segments in the Russian east (refer to Graph 21).

Graph 21 Key stakeholders in oil and gas sector of East Siberia and the Far East.



Source: composed by the author.

Having experienced hardships associated with energy transit through the post-Soviet states, Russia came to realize clearly the need to revise its geographical priorities in order to utilize the benefits of the direct access to diversified export markets. Based on this, Russia stepped up the Asian vector in its energy policy and embarked on strengthening ties with the NEA nations. A leap forward with the implementation of the East Siberian and Far Eastern energy projects (Sakhalin I and II, ESPO, in particular) testifies to Russia`s eagerness to meet the goals set in the national policy papers and reached through the bilateral coordination with the NEAs. There have been numerous twists and turns in the Russian position with regard to the Sakhalin I and II, the ESPO and the Altai developments, which at present seem to be settled. The near-future prospects for multilateral cooperation in Russia's east can be presented as involving around these major projects (refer to Table 39).

Table 39 Russia's major NEA-oriented projects.

	Projects	Oil	LNG/ Gas
Operational	Sakhalin I, II	China, Korea, Japan, etc.	Japan (over 65%), Korea, China, etc.
	ESPO – 1 ESPO (1st stage completed in 2009; 2nd – 2012) – Skovorodino (rail) – Kozmino port – (sea)	Korea (40%), Japan, China, etc.	
Under development/ projected	ESPO 2 Sakhalin 3-6(-9) (Sakhalin – Khabarovsk – Vladivostok & Yakutia – Khabarovsk – Vladivostok) Altai gas pipeline	NEA – 3	NEA-3 China, Korea

Source: composed by the author.

Addressing the question of viability of the G2G format for Russia's cooperation with the NEA troika, it seems a worthwhile enterprise to draw some comparative lines between the NEAs' national energy policies. There are certain commonalities deriving from similar concerns about deep dependency on energy import, high concentration on imports from a limited number of suppliers (Middle Eastern dependency, as a major threat), high volatility of energy markets, aggravating environment, etc., which altogether justify a government's more active involvement. Briefing on the NEAs' energy policies, Table 40 reveals a certain degree of compatibility in the aims pursued by the NEA countries, but it also characterises the difficulties for a more coordinated energy relations in the region. The latter explains why despite all the similarity in goals in the overarching areas, a bilateral format for Russia's energy cooperation with NEAs is more attainable.

Table 40 NEAs energy policies: comparison on degree of compatibility.

Country	Energy policy priorities	Susceptibilities	Gains sought	Factors to contribute	Limitations
Japan	By 2020: Increase EEC by 30%; Reduce oil consumption in transport sector to 80%; Reduce dependence on oil to 40%; Increase oil imports by NOCs to 40%; Increase share of electricity generated by nuclear power to 30-40%, etc.	High dependence on ME; High reliance on oil; Toughening competition with China and Korea over access to resources in new regions (Africa, Central Asia, Caspian Region, etc.)	National energy security through energy cooperation on broad issue and geographical context; etc.	Immense private and state capital; Advanced machinery; Cutting-edge construction technologies; etc.	Undeveloped domestic piped infrastructure; Influential power sector lobby; Territorial disputes; with NEAs, etc.
China	By 2010: Improve EEC by 20%; Balance domestic and external resources supply (ties with oil producing economies; NOCs "going abroad"); Build up oil strategic reserves; Bring about market-adjusted style of energy management, etc.	Rapidly growing energy demand; Rising reliance on external sources; Deteriorating environment; Surging external anxiety about China`s energy policy; etc.	Development of regions in the north-east; Strengthening the nation`s stance for leadership in NEA; etc.	Ample state capital; Enormous in number and cost-competitive work force; etc.	Non-market regulation; Sparsely developed energy infrastructure in north and east; Territorial disputes; etc.
Korea	Secure supply; Reinforce oil industry competitiveness; Decrease dependence on fossil fuels (to nuclear energy, alternatives, renewables); Pursue EEC; Establish trans-boundary energy systems in NEA, etc.	High dependence on ME; DPRK related security concerns; etc.	Unification with the North; Active role in regional energy community`s formation; etc	Sufficient state and private capital; Advanced and cost-competitive constructing technology; and drilling and refining machinery; etc.	Land-locked over neighbourhood with DPRK; Territorial disputes; etc.
Russia	Improve energy resources management; Develop energy infrastructure; Modernize upstream and downstream sectors; Eliminate gap in economic development across the country; Diversify energy export; R&D in EEC; Environment protection; etc.	Obsolete production base; Declining deposits` productivity; Dilapidating energy infrastructure; Deficit in energy supply; Gap in economic development between the regions; High dependence on Europe; etc.	Improvement of EEC; Diversification of energy export away from dependence on Europe; Technical and technological upgrade of fuel – energy complex; Vitalization of East Siberia and the Far East; etc.	Rich resource base; Adequate state and private capital; Exploration and exploitation technologies; Adequately skilled work force; etc.	Poorly explored resource base; Unprecedented scope of investment required; Restrictive regulation Territorial disputes; etc.

Source: composed by the author

Note: EEC – energy efficiency and conservation; ME – Middle East; EC – energy cooperation

A common perception that Russia uses its energy resources as a lever of foreign policy also looms in NEAs. However, as the analysis proves, to commence energy cooperation with NEAs and ensure its further development, the Russian government has indeed undertaken unprecedented fiscal and other incentives. In a situation of rather weak institutionalisation of the multilateral cooperation in the NEA region, the policy framework is chiefly informed by bilateral intergovernmental agreements and energy dialogue formats. Importantly, provisions on 'regional component' envisaging

the enhanced economic development of Russia's East Siberia and the Far East are the key elements of both agreement and dialogue formats.

Asianization as a policy course is deeply pragmatic. There are objective factors that increase the NEA's market attractiveness, such, for instance, as already significant and projected to grow further energy demand, as opposed to stable (or declining) trend in the EU. Another particularly favourable aspect is the geographical proximity of the NEAs, which grants Russia a direct access – without transit and intermediary issues involved - to the NEA consumer markets. Furthermore, considerations concerning the resource basis, which in the Russian east is largely untouched (in contrast to intensively exploited provinces of Western Siberia), but believed to contain huge reserves, add to the list of the Asian markets' attractiveness. The logic of advancing socio-economic development of Russia's eastern regions through the synergic effect of enlarged international energy cooperation with the NEA countries is also incorporated in the policy making process.[224]

[224] Importance of this aspect is specifically underlined in Program for Effective Utilization of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation (February 2010).

CONCLUSION

Historically rooted in the intellectual debate about Russia's role in the world and its way of development, the "whether East or West?" dilemma naturally has certain projections on Russia's foreign energy policy. Nonetheless, the contemporary Russian energy policy is no longer a choice between staying West or going East; a combination of (geo)-political-economic considerations has resulted in a multidimensional policy. Moreover, bearing in mind that Russia's counterparts (in Europe, CE and NEA) pursue energy security through diversification of sources of imports/markets for exports, there is even a certain degree of compatibility between the policies of Russia and other states concerned.

Dynamism of international energy relations can only be achieved through strategically oriented cooperation built upon comprehensive institutional and legislative frameworks. From this perspective, Russian energy relations with Europe and Central Asia - as compared to those with the NEAs – are established more solidly. However, the ongoing remapping of the pipelines' routes in the west accompanied by unfolding large-scale projects in Russia's east may significantly alter Russia's present interdependency with Europe. This move towards Asia will inevitably be accompanied by a gradual institutionalisation of frameworks and instruments.

Russia's energy policy key priorities, aspects of susceptibility, gains aspired for, factors favouring and limiting energy cooperation as regards larger regions under consideration are summarised in Table 41.

Table 41 Principal characteristics of Russia's foreign energy policy towards three regions.

Criteria	EU	Central Eurasia	Northeast Asia
Overall contemporary environment	- levelled off or modestly growing demand; - dense regulative framework; - high institutionalisation of governance within EU; - absence of multilateral regulative framework (WTO, ECT, PCA, etc. uncertainty); - persistent transit disputes; etc.	- multidimensional energy policy; - existing but waning CE's dependence on Soviet-era energy infrastructure; - prospect for new format cooperation as rich resource base is attractive to Russian NOCs; - growing domestic energy production; etc.	- growing demand; - emerging symmetry within supply (Russia) – demand chain; - similar, purely pragmatic approach; etc.
Russia's energy policy priorities	- improve energy resources management; - modernize upstream and downstream sectors; - R&D in EEC; - environment protection; etc.	- strengthening Russian NOCs status; - technology and machinery export; etc.	- energy infrastructure development; - elimination of gap in economic development across the country; - diversification of export routes and goods; etc.
Susceptibilities	- obsolete production base; - declining deposits` productivity; - dilapidating energy infrastructure; - deficit in energy supply; - high dependency on export; - inadequate state and private capital; etc.	- increasing competition for import; - competition for participation in energy projects; etc.	- economic underdevelopment of eastern regions; - inadequate state capital; - special production and export regulation for uncertain period; etc.
Russia's gains sought	- improvement of EEC; - technical and technological upgrade of FEC; etc.	- resource development by Russian NOCs; - optimization of export routes; - expansion of cooperation and deeper integration; etc.	- vitalization of East Siberia and the Far East; - diversification of energy export diversification; etc.
Russia's factors to contribute	- rich resource base; -exploration and exploitation technologies; - adequately skilled work force; etc.	- technology; - work force; - hard infrastructure;	- resource base; - utmost government backing; etc.
Russia's limitations	- external restrictive regulation; - transit issues with Ukraine, Belarus, and Poland (?); etc.	- low technical and technological competitiveness; - Russian energy companies comparatively low competiveness against foreign businesses operating in the region; etc.	- poorly explored deposits of East Siberia and the Far East; - unprecedented scope of investment required; - lack of not only skilled but work force in general; - territorial dispute with Japan; - overall tense geopolitical situation (DPRK factor); etc.
Shift in Russia's behavioural pattern	assured supplier → reliable partner	opportunistic merchant → businesslike partner	inconsistent actor → mature state entrepreneur

Note: EEC – energy efficiency and conservation.

Source: composed by the author

As has been noted, a tremendous variety of domestic and external factors are responsible for Russia's foreign energy policy formation and transformation. This study produced results showing that Russia's foreign energy policy had been evolving throughout the transition period, and yet is changing to meet adequately new challenges and seize opening opportunities. Objectively, not only benefits can be

expected along these major shifts, there are also threats to handle and weaknesses to eliminate (refer to Table 42).

Table 42 Ramifications of Russia's West-Center-East energy policy shifts: SWOT analysis.

Strengths	**Weaknesses**
Opening up new large markets; Possibility for rule setting through negotiation and bargaining; Full benefits from energy export diversification (oil, gas, LNG); Opportunities for transit-free links; Synergy through modernization in the sector;	Immense expenses and efforts towards implementation of Asian vector; Eastbound policy is driven by political and geo-political factors, much of which are uncontrollable;
Threats	**Opportunities**
Europe may irreversibly diversify away from Russian supplies; Economic costs of grand shift to Asia may not be recoupable;	New oil blend brand (higher price for Russian oil); New centre for oil & gas trade in Asia; Rapprochement with FSU (e.g., Ukraine), and post-Soviet (Poland) partners; Rationalisation of energy flows (gradual switch from maturing to growing markets); Impulse to Russia's periphery development; NOC-IOC partnership;

Russia's long-term export dependence is the essential 'pre-condition' for its energy security concerns. Prolonged disruption of its exports or a significant decrease in its volumes would undermine the very ability of the Russian government and industry to sustain economic development, eventually threatening national security. Russia's foreign energy policy serves to create a vitally important capacity to reduce Russia's vulnerability and uphold its energy security. Over the last two decades, Russia's foreign energy policy was redefined against the backdrop of sweeping changes at systemic, transnational, and domestic levels, and can be expected to transform further towards acquiring features of a more nuanced system.

Three major processes in the realms of geography, economics, and politics will continue to define the logic of the policy transformations. The concept of *Eurasianism* will further shape Russia's involvement with both the West and the East. Considerations of *Pragmatism, which ha*ve initially defined Russia's foreign energy policy shifts, will remain principal driving forces behind the transformations in every respective geographical dimension. Lastly, the concept of *Multipolarity* targeted at providing a more secure environment for the domestic sustainable development,

maintaining regional stability and enhancement of the international cooperation, will continue to influence Russia's energy policy.

This work has established that Russia's foreign energy policy is a 'permanent' strategic problem. As a function of the country's industrial structure, resource allocation and geopolitical location, it is certain to register as a critical issue in future, though in what way depends on the course of economic and political trends unfolding both internally and externally.

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