

# IFS Insights

## Russia's foreign energy policy

Paradigm shifts within the geographical context of Europe,  
Central Eurasia and Northeast Asia

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### Summary

Throughout the transition period, Russia was pursuing an energy policy composed of a set of responses to external developments. However, in the wake of the 2008 crisis, the government expedited the formulation of a new long-term energy strategy aiming to create a comprehensive energy policy to enhance Russia's sustained development.

Externally, Russia's decisions in 2009 to postpone its accession to the WTO and refrain from ECT ratification sounded alarmingly. However, Russia's policy course taken in the overall setting was not entirely destructive. By proposing a conceptual framework for international energy cooperation (April 2009), Russia has demonstrated its willingness to become an actor in global energy governance. Recent transformations in Russia's energy policy can be read within the context of Russia's aim to conceptualise its vision of energy security more holistically.

Based on an understanding of Russia's multirole status (producer, exporter, importer, consumer and transiter) in the energy arena, this work features the complexity of the content of Russia's foreign energy policy; it also 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.

# Russia's foreign energy policy:

Paradigm shifts within the geographical context of Europe,  
Central Eurasia and Northeast Asia

## Introduction

One initial motive for commencing this study was to try to overcome the prevailing normative perception in the scholarly literature of Russia's energy policy, and thereby nuance some key developments in contemporary Russian foreign energy policy.

The purpose of this work is to examine what has changed in Russian foreign energy policy throughout the transition period, and why and how it has changed. Because of Russia's multi-role status in the global energy arena and the asymmetry observed across the domestic energy complex, the findings *a priori* cannot explain the whole of Russia's energy policy. Accordingly, 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.

A well-known fact – that Russia acts simultaneously as an energy producer, exporter, importer, consumer and a transit state – is not necessarily incorporated into contemporary scholarship on Russian energy. Accordingly, it is often disregarded that Russia's foreign energy policy is influenced by a broad range of factors acting both internally and externally.

Domestically, two particular aspects influence energy policy-making. First, there is great divergence 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 effective engines for the industrial and economic revival of depressed areas. The most telling example in this regard may be the contemporary history of the development of energy resources in Siberia and the Russian Far East. Second, Russia's energy sector itself is not a unified space. Quite the opposite: great asymmetry may be observed across the national energy complex (a mere glance at the map of Russia's pipeline network provides the best illustration of this). The most developed production base and infrastructure are situated in the west of Russia, while such barely exists in the east of Russia. Thus, the geography and economics of Russia's energy resources are those objective realities which to a considerable degree determine Russia's energy policy.

Externally, Russia's foreign energy policy is influenced by global politics and economics, by regional and bilateral developments and by the dynamics of the energy market. Despite variations in Russia's approaches within each of the geographical dimensions scrutinised here – Europe (first and foremost, the EU), Central Eurasia<sup>1</sup> and Northeast Asia – some common features allow several policy patterns to be defined.

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1 The definition of Central Asia in the present study comprises five countries – Kazakhstan,

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 reveal, if not cooperation per se, then a certain amount of coordination in the policymaking process. Despite Russia's withdrawal from the ECT in 2009, the Russia–EU energy dialogue framework remains legitimate. Regarding the EU, Russia has demonstrated 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, the institutional and regulatory novelties enacted after the Lisbon Treaty's adoption and so forth. Russia regards the EU as a counterpart which enables the most comprehensive mode of energy partnership. By cooperating with this partner, Russia can effectively achieve its four-fold goal of improving energy security, the energy efficiency of the economy and the efficiency and ecological security of the fuel energy complex (as stated in Russia's Energy Strategy 2030). On the whole, Russia's energy relations with the EU are characterised by strongly symmetrical interdependency (largest supplier – largest consumer), which is intensified additionally by the deep dependency on transit of both sides. It is due to this complex combination of aspects that Russia's energy policy towards the EU represents the most multifaceted pattern.

In Central Eurasia, however, Russia's energy policy is currently undergoing rather profound changes. The somewhat collectivistic pattern of cooperation pursued throughout the post-Soviet period and influenced by residual Soviet thinking is transforming. This is to reflect new realities of integration in the post-Soviet space, especially with the Central Asian countries' involvement (EurAsEC, Shanghai Cooperation Organization (SCO), Customs Union and so on). However, there is an even more important trigger for Russia's policy transformation. Within the context of the dramatically increased geopolitical significance of Central Eurasia, the overall trend in the foreign policies of Central Eurasian countries is to expand the scale and modify the nature of their ties with the East and West. In the energy realm, this translates into their policy of enlarging their international cooperation and diversifying their oil and, especially, gas exports. This creates a new setting for relations between Russia and Central Eurasia.

As far as Northeast Asia is concerned, Russia's energy policy can be characterised as gradualist, implemented by trial-and-error and pursued predominantly bilaterally with a very slight degree of institutionalisation. Although Russia's policy on Northeast Asia has many significant variations within the mode, its general attribute is that it is based on the greater tolerance of the Asian partners for the greater regulative involvement and controlling power of the Russian government in the sector. In fact, this omnipresence of the state makes the Russian energy sector less risky and more attractive in the eyes of the Northeast Asian countries.

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Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. However, this work mainly refers to the three which possess energy resources: Kazakhstan, Uzbekistan and Turkmenistan. Likewise, Central Eurasia is narrowed down here to only four actors (all important in the energy realm) to include the three Central Asian countries and Azerbaijan. Last, the Caspian region denotes five littoral states: Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan; all are influential energy powers.

This work is designed to complement Russian energy policy studies in two respects. First, it features Russia's foreign energy policy not as a single monolithic mode; rather, this work perceives Russian energy policy as composed of different patterns which distinguish between three policy paradigms, which geographically cover Europe, Central Eurasia and Northeast Asia. A second feature here is a dynamic vision of Russia's energy policy. Importantly, this study focuses not on the evolutionary process *per se*, but rather on the cause-effect chain which triggers the policy transformation.

This study is organised into three sections. First, it examines the process of the formulation and implementation of Russia's external energy policy in the period 1990–2010 (in particular, post-2004). Second, the shifts in Russian energy policy towards Europe, Central Eurasia and Northeast Asia are analysed. Third, the logic behind the changes in Russia's energy policy regarding each of three geographical dimensions is explained.

# Ideas and determinants informing Russia's foreign energy policy

Until very recently, the predominant notion in studies of Russian energy policy has been that Russian energy policy has been well-integrated into Russia's foreign policy, and that oil and gas are the most persuasive instruments of that foreign policy. However, Russian foreign energy policy has often been a multiplier, not a cause: "If the underlining character of Russian relations with a certain country favours rivalry, the politics of energy will take on this character and add to it"; "[c]onversely, if in general, a more cooperative spirit prevails, energy will be a reason and means to deepen it."<sup>2</sup>

As the geostrategist Nicholas Spykman has noted: "The geography of a country is rather the material for, than the cause of, its policy... the geography of a state cannot be ignored by men who formulate its policy". Nevertheless, this does not suggest a static perspective on a policymaking environment, because "[g]eographic facts do not change, but their meaning for foreign policy will".<sup>3</sup>

This study treats the geography of energy resources as an increasingly flexible category since discoveries of new deposits, new means of transport, advanced upstream technologies, structural shifts in energy markets and so forth add certain political and geopolitical dimensions to purely geographical factors. Accordingly, even regions modestly or poorly endowed with energy resources can yet become significant actors on the international energy arena.

The present study has been developed against a neoclassical concept of geopolitics, which is concerned with the strategic value of geographical factors (resources, access to the sea and so forth) and is closely related to the tradition of neoclassical realism in international relations. Positioned within international relations, international energy ties will be analysed as prone to cooperation-conflict tensions and examined through the lens of interdependency (political or market dependency).

The geographical continuum under scrutiny – Eurasia – has traditionally occupied a focal place in geostrategic studies.<sup>4</sup> In the aftermath of the Cold War, a major risk of economic conflicts and great power rivalry prompted Zbigniew Brzezinski to call the region made up of Central Asia, the Caucasus, and Afghanistan (with the potential addition of two other "significant geostrategic players" – Turkey and Iran) a 'Eurasian Balkans', implying there was an extreme volatility and instability here. At the same time, it has been recognised that "the Eurasian Balkans are infinitely ... important as a potential economic prize: an enormous concentration of natural gas and oil reserves is located in the region ..."<sup>5</sup> Indeed, the geopolitical profile of Central Asia (Caspian Sea region,

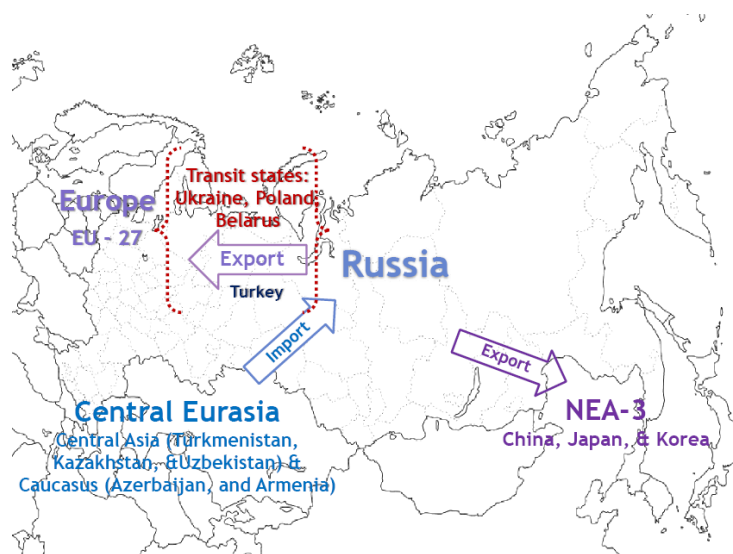
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- 2 Legvold, Robert, Russia's Strategic Vision and the Role of Energy in Russian Energy Policy and Strategy// National Bureau of Asian Research. NBR Analysis. Vol. 19, # 2, July 2008. pp. 19–20.
  - 3 Spykman, Nicholas J. (1938) Geography and Foreign Policy// American Political Science Review. # 1. February. pp. 28–50. p. 30
  - 4 Ismailov, Eldar (2008) Central Eurasia: Its geographical function in the 21st century// Central Asia and the Caucasus. 2 (50). pp. 7–29.
  - 5 Brzezinski (1997), pp. 87, 123, 124, respectively.



Central Eurasia,<sup>6</sup> or more broadly Central Caucasasia<sup>7</sup> has risen so prominently that no analysis of contemporary global energy affairs excludes this region.

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

- Russia is a traditional energy supplier to Europe, a rather new partner to the Northeast Asian countries and a recognised actor in Central Eurasia;
- Central Eurasian states are established partners of Russia and new suppliers to both Europe and the Northeast Asian states;
- The EU is a long-established customer of Russia, seeking energy supply diversification at the expense of the resources of the Central Eurasian states, and therefore worried about the expanding presence of the Northeast Asian states in Central Eurasia;
- The Northeast Asian states are habitual customers of the Middle East, persistently probing into Central Eurasia and gradually developing more cooperation with Russia.



**Map 1** Geography of Russia's energy ties.

Source: composed by the author (blank map downloaded at <<http://english.freemap.jp/>>).

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 structure composed of various entities, including commercial and hybrid actors. In pursuing energy policy holistically, the government applies

6 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), pp. 1–2

7 For a debate on geographical terminology about the region see: Papava, Vladimir (2008) "Central Caucasasia" instead of "Central Eurasia"// Central Asia and the Caucasus. 2 (50). pp. 30–42.

a broad array of levers at every level of political competence (national, regional and international).

Concepts of energy may be generalised into two principal classes: those developed predominantly along a geopolitical paradigm, and those informed by economic thinking. While the former treats energy as a strategic/ public good and advocates a zero-sum type 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 which views energy as a common/ internationally tradable good (Yergin 2007, Finon & Locatelli 2007, Stanislaw 2008, etc.). In reality, these streams of ‘securitisation’ and ‘commodification’ are not mutually exclusive, and a government refines the entire edifice of its energy policy by emphasising one of the approaches.<sup>8</sup> And here lies the seed of most energy conflicts: producers/exporters and consumers/importers of energy resources may operate by the same categories (volume, price and continuity), but the parameters they attend to are largely dissimilar,<sup>9</sup> because the two sides naturally enough accentuate their interests and formulate their concerns differently.

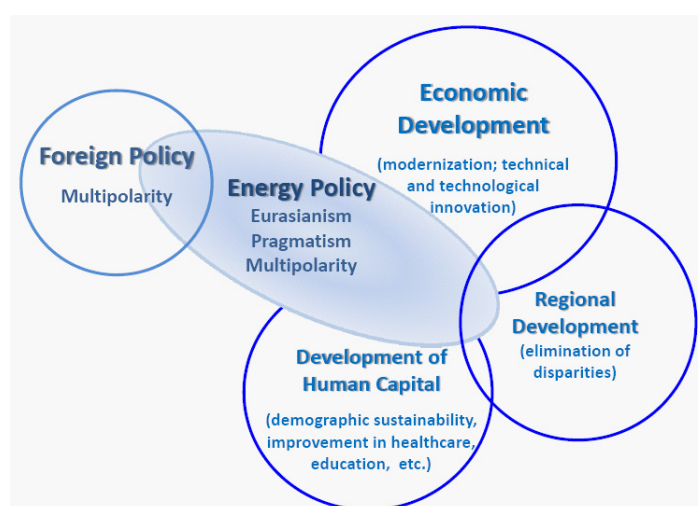
Principally due to this perception gap, in the eyes of Western experts Russia’s foreign energy policy is tailored as an offensive and predatory course intended to endanger the positions of the states locked into energy relations with it. A number of quotations may serve to illustrate this: “Russia – a carbon economy which invades Georgia, threatens Ukraine and the Baltics and moves on the Arctic ...”<sup>10</sup> Meanwhile, Stephen Blank claims that Russia has vested economic motivations; in fact, it “would not object to being paid in rubles for its energy sales to China thus abandoning the dollar as a medium of interstate exchange...”, hoping “not just to weaken the US but also to generate demand for rubles and create a closed trading and currency block in the CIS.” According to Blank, economic benefits are aspired for as a means to nourish Russia’s Great Power ambitions. He also writes the following: “In this regard its [Russia’s] 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”.<sup>11</sup> However, this seems a rather far-fetched and highly alarmist opinion. There are other less categorical approaches which involve different prospects; William Enghal, for example, underscores that Russia “is using its energy as a diplomatic and political lever to ‘win friends and influence (EU) people’”, but he nevertheless opines that Russia is pursuing “a fascinating,

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- 8 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.
  - 9 Alhajji A.F. (2007) What is energy security? Definitions and concepts// OGEL. Vol. 6 Issue 3. November 2008.
  - 10 Helm, Dieter (2008) Climate Change, European Energy Policy and the Copenhagen Summit: Time for Realism? New College, Oxford. Lecture Series in Environmental and Ecological Economics. October 21.
  - 11 Blank, Stephen (2009) Russia’s New Gas Deal with China: Background and Implications// Northeast Asia Energy Focus. Vol. 6, No. 4. Winter 2009. p.27.



highly complex multi-pronged energy strategy”.<sup>12</sup> A similar prospect is provided by Joseph Stanislaw: he views Russia as “an energy superpower” which “uses its vast resources as the basis of economic development and as an instrument for carrying out domestic and foreign policy.”<sup>13</sup> Ariel Cohen’s assessment is also that Russia is “pursuing a comprehensive energy strategy, which masterfully integrates geopolitics and geo-economics.”<sup>14</sup>

In reality, it is hard to distinguish between purely (geo)political and purely economic considerations that shape the contour of Russia’s foreign energy policy. Importantly, while tackling this imperative task of sustainable domestic socio-economic development, the Russian government emphasises energy resources and the energy sector as the principal components of Russia’s transformational dynamism (refer to Graph 1).



**Graph 1** Energy policy in the context of national priorities.  
Graph composed by the author.

Reacting to rather profound shifts and anticipating new changes in the domestic and external setting, Russia has revisited its strategic views on its role in the international system. The fundamentals of Russia’s foreign policy are established by: the Foreign Policy Concept (FPC), July 12, 2008; the Statement by RF President on principles of foreign/security policy, August 31, 2008; the National

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- 12 Enghal, William (2010) High-stakes Eurasian Chess Game: Russia’s new geopolitical energy calculus. 30 March < <http://www.voltairenet.org>>
  - 13 Stanislaw, Joseph A. (2008) Power play – Resource nationalism, the global scramble for energy, and the need for mutual interdependence. Deloitte Center for Energy Solutions. p. 9
  - 14 Cohen, Ariel (2009) 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. p.101.

Security Strategy until 2020 (NSS);<sup>15</sup> and, the Military Doctrine (MD).<sup>16</sup> Each document also addresses certain aspects of Russia's foreign energy policy.

The Foreign Policy Concept holds that while Russia should ensure sustainable development of the domestic economy and help maintain balance in the world's energy markets, Russia should also continue to build up and modernise the capacity of the fuel and energy industry. Additionally, if one assumes that Russia's energy security is linked to stability of demand and the security of transit, Russia aims to strengthen its partnership with the leading energy producers and develop an active dialogue with the consumers and transit countries. This is in accordance with the principles of energy security adopted by the G8 Summit in Saint Petersburg in 2006.

The National Security Strategy underscores the geopolitical importance of the regions possessing energy sources, such as the Middle East, the Barents Sea, the Arctic,<sup>17</sup> the Caspian Sea and Central Asia. Indicative of the crucial importance attached to energy (both resources per se and security) is the fact that the National Security Strategy mentions this aspect in the chapters dealing with "Russia in the World Community", "National Defence", "Raising the Quality of Life" and "Economic Growth". The National Security Strategy defines energy security as one of the major focuses of national security in the economic sphere. It is emphasised that 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.

Russia's foreign policy has always been influenced by a 'West vs East' intellectual debate.<sup>18</sup> However, contemporary Russian foreign policy is underpinned by the tenet of multipolarity signifying a shifting balance between Europeanism and Eurasianism. Due to traditionally well-established and commercially beneficial energy ties with the West, Europeanism has long remained a dominant platform in Russia's energy policy. Eurasianism, which embraces both the West (Euro-Atlantic) and the East (Asia-Pacific) flanks, has come to be adopted as a policy mode which enables lingering uncertainties to be handled and potential opportunities to be developed. Importantly, pragmatic considerations became a major trend within both Europeanism and Eurasianism. Due to this pragmatism, and due to the increased awareness of China's immensely strengthened status in international affairs, a group of Sinophiles has formed within the Eurasianist camp.<sup>19</sup>

The arrival of pragmatic thinking into Russia's foreign policy-making was galvanised by an extremely favourable external conjuncture in oil, gas and

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

16 The Military Doctrine of the Russian Federation. February 5, 2010 < [http://news.kremlin.ru/ref\\_notes/461](http://news.kremlin.ru/ref_notes/461) >

17 Here, the National Security Strategy correlates to the Foundations of the Russian Federation's National Policy in the Arctic until 2020 and beyond (September 18, 2008).

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

19 Tsygankov, Andrey (2009) What is China to us? Westernizers and Sinophiles in Russian foreign policy. IFRI. Russia/ NIS Center. December.

other raw material markets. Strengthened economically by export windfalls, Russia started seeking a more influential role in global affairs: it proposed, for instance, the concept of energy security in 2006, and the concept of global energy governance in 2009.

Although energy is often referred to as Russia's foreign-policy trump card, whose use is necessarily tainted by coercion and blackmail, this seems to be a somewhat narrow interpretation. In effect, there has been an increasing understanding that energy is one of the key elements of Russia's '*economic card*'.<sup>20</sup> In the wake of the 2008 financial crisis, the economic component of energy policy has become even more important. This is indicated by 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 emphasised in his 2009 Presidential Address to the Federal Assembly of the Russian Federation.<sup>21</sup>

### *Energy Strategy 2030*

Following a dramatic change in the global energy market, the Russian government was forced to revise the Energy Strategy until 2030 (hereafter referred to as "the Strategy"), and adopted it on November 13, 2009.

In the new Strategy, the government emphasised a new approach whereby objectives for the development of the national energy sector are set as pivotal parameters. The new Strategy is built upon an assumption that it is the national Fuel Energy Complex (FEC) itself that crucially defines its own forward trajectory and shapes the trends within the entire economy. 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 current consequences of the downturn tackled before 2015. In turn, the second scenario envisions a slower pace of overcoming the repercussions of the crisis, with full recovery expected by 2020/2022.

The Strategy outlines three phases, but the timeframe is stipulated by whether or not the concrete parameters of the development of the Fuel Energy Complex have been achieved. Logically enough, the Strategy envisages a substantial overhaul of the Fuel Energy Complex during the first stage (2013–2015) to become an additional engine pushing the domestic economy towards post-crisis recovery. During the second phase (2016c2020/2022), 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 2021/2023–2030, considerably improved energy efficiency coupled with the enhanced use of non-fuel energy sources (nuclear, solar, wind and so on) are expected to boost Russia's robust economic development.

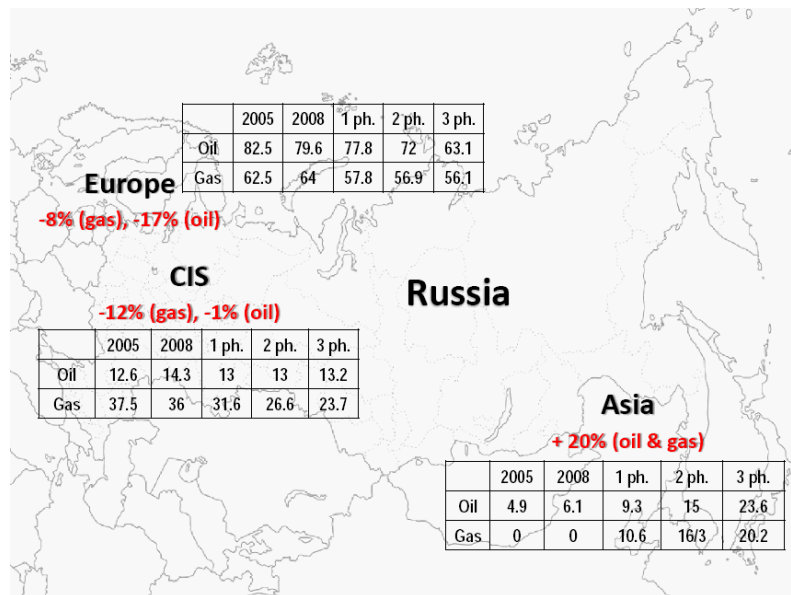
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20 I am here referring to a candidate of sciences degree in economics with specialization on National economy planning and management, defended at the Saint Petersburg Mining Institute in 1997. The thesis is quoted in Harley Balzer (2005), *The Putin Thesis and Russian Energy Policy*, *Post-Soviet Affairs*, 21/3. pp. 210–225, and in [Hiroshi Kimura (2008), *Putin's energy strategy*].

21 Long Term Concept for Social and Economic Development of the Russian Federation (2008); Medvedev, Dmitry (2009), "Go, Russia!", September 10; Presidential Address to the Federal Assembly of the Russian Federation. November 12, 2009.

The Strategy pursues an array of aims across four major dimensions: energy security; the energy efficiency of the domestic economy; the economic efficiency of the Fuel Energy Complex and, the ecological security of Fuel Energy Complex.

Concerning the diversification of energy development and export, the Strategy 2030 saliently identifies new geographical dimensions. More specifically, it envisages the accelerated development of new oil and gas deposits in East Siberia, the Far East, on the Yamal peninsula and on the Arctic shelf. Accordingly, export flows are projected to switch more towards the East (refer to Map 2).



**Map 2** Shifts in the geographical structure of Russian oil and gas exports in per cents.  
Map composed by the author based on the Strategy 2030 data.

As regards the provisions for foreign energy policy, the strategic aim is formulated to make the most efficient use of Russia's energy potential. This is to comprehensively integrate Russia into the world energy market, strengthen its clout in energy affairs and maximise its economic benefits.<sup>22</sup> To this end, the document states, Russia has to adequately represent its interests through the avenues of cooperation within the Commonwealth of Independent States, the Eurasian Economic Community, Northeast Asia, the Shanghai Cooperation Organization, the EU,<sup>23</sup> and other states and international organizations. Coordinating its energy policy with OPEC and the GECF is also necessary, as is enhancing the formation of the united Europe–Russia–Asia energy space.<sup>24</sup> The more specific objectives of Russian foreign energy policy can be summarised as follows:

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- 22 Doklad Ministra energetiki RF S.Shmatko na zasedanii Pravitelstva 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>]
- 23 Listed in the order of the original document. Refer to [<http://minenergo.gov.ru/press/doklady/1420.html>]
- 24 Provisions relating to Russia's external energy policy were not highly appraised by Prime

- representation of Russia's national interests in the regulatory frameworks of the world energy market system (development of an internationally acceptable concept which allows for the balancing of the interests of exporters, importers and transitters 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 and so forth);
- geographical diversification of energy export (expansion towards Asia while maintaining European markets; enhancement of energy production and infrastructure; participation in regional energy alliances; expansion of access to overseas energy infrastructure – ports, super tankers and so on);
- structural diversification of exports (LNG, various value-added petro- and gas chemical products and so forth);
- 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 the growing role of the rouble; promotion of new Russian oil blends; improvement of pricing policy;<sup>25</sup> development of a system for forecasting and analysing international energy markets; data and information sharing; technological and technical cooperation and so on);
- promotion of the Russian energy companies' overseas activity (intergovernmental agreements; backing of Russian companies' operations in the EU, Northeast, East and South Asia, Middle East, Central Asia and Latin America; Russian and foreign energy companies cross-ownership; Russian energies companies' multifaceted cooperation with transnational corporations; development of joint businesses down the value-added chain and so forth);
- establishment of a favourable environment for international cooperation in technically challenging and risky energy projects in Russia, including shelf and Arctic projects, and so forth.

#### *Paradigm shifts in Russia's energy policy*

Although it was intended to match the overall course of market reforms, Russian energy policy in the 1990s suffered numerous failures due to continuing Soviet practices. In a sense, energy policy was built upon the perception that the energy sector had to further maintain the role of donor for the entire economy. This conclusion can be drawn by analysing the structure and content of the policy documents approved throughout the 1990s/early 2000s.<sup>26</sup>

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Minister Putin, who has characterised the Strategy as “not ambitious enough”, pointing out that the document addresses too scantily Russia's standing in global energy affairs.

25 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](http://minenergo.gov.ru/press/doklady/2190.html?sphrase_id=7238)>

26 Before the Energy Strategy of the Russian Federation until 2030 was approved in 2009, the main documents were: 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

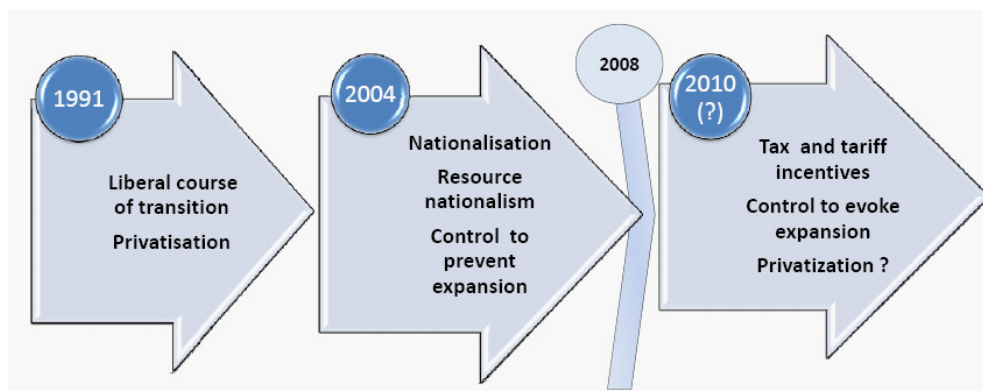


On the whole, energy policy throughout 2003 was rather fragmentary and inconsistent with the course of market reforms which commenced in the early 1990s.<sup>27</sup> The goals formulated in the programme documents had been poorly achieved, and were consequently dragged over into the next paper on energy policy, only to remain unfulfilled. By about 2004, the overall domestic political environment had shifted towards greater power for the state. For example, from 2000 the ‘oligarchs’ were ousted from the media, then regional presidential representatives were introduced to curb the power of regional governors. In 2003, the oligarchs were ejected from the State Duma when the liberal parties which they financed and which were their main lobbying conduit were forced out. Finally, the compulsory dissolution of Yukos and the redistribution of its assets to state-controlled companies signalled the advent of state capitalism, a system of state entrepreneurship backed by mechanisms of selective support for loyal state-oriented companies and punitive measures against entities opposing vertical federal power.

A liberal policy course in the Russian oil and gas sector had come to an end by 2004; since then, policy has been based upon heavier governmental control. The State’s interests in the gas and oil industries were carefully guarded through nationalisation, resulting in a higher degree of monopolisation, sluggish competition in the sector and its chronic overall inefficiency. A deliberate governmental course cut back on foreign investment. Though the necessity was fully realised for additional investment in the exploration and production of resources, amending the regulatory basis to allow for the greater participation of foreign partners and freer access for domestic small and medium-sized companies was postponed.

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

To sum up, Russia’s energy policy in the post-Soviet period can be characterised as evolving through several phases (refer to Graph 2).



**Graph 2** Periodisation of Russia’s energy policy. Graph composed by the author.

until 2010 (1995), Main Provisions on Energy Strategy of Russia until 2020 (2000), and Energy Strategy until 2020 (2003).

27 Miller, N.E. (2009) Gosudarstvennaya energeticheskaya politika Rossii v kontekste postsovetских preobrazovaniy 1990-h gg.// Gosudarstvennoe upravlenie. Vypusk 18, Mart.



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

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

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The conventional analytical frame argues that Russia's conduct of external energy relations is mostly led by ambitions consistent with Great Power politics. Russia's behaviour is frequently described in categories such as 'great', 'super'

‘energy power’, ‘flexing energy muscle’, ‘using oil/gas weapon’. To what extent does this cliché hold true? Though a definite criterion is lacking, a few indicators may help reveal principal nuances. To start with, Russia is Europe-dependent for 64 per cent of its gas exports and 79.6 per cent of its 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 the Druzhba pipeline which enables the shipment of 28 per cent of Russian oil exports to Europe.

Apparently, Russia’s ultimate energy leverage against Europe and Central Asia is more likely a myth than an objective reality. Russia’s profound dependency on Europe translates into its vulnerability to fluctuations in demand in its largest external market and makes its export revenues highly volatile. Furthermore, this Europe-oriented model of energy exports largely defines the dynamism of Russian domestic output, which in turn generates wide-ranging social and economic impacts on the oil and gas producing regions and on the national economy as a whole.

Russia’s energy relations with the EU are a telling example of symmetrical interdependence. A number of reasons for this can be thought of. Two aspects, physical capacity (pipelines) and commercial arrangements (long-term supply contracts), linked the supplier with the consumers in the west especially tightly and created a pattern of relations which finds accommodating new realities rather difficult. This is especially true of the gas segment: piped conventional natural gas is increasingly being replaced by LNG delivered by tanker and traded by spot contract. Another strand of complexity stems from a ‘third party factor’, which always plays a significant role in Russia–EU energy relations. On the whole, Russia’s energy ties with the West are highly intertwined and cannot easily be replaced or transformed by any of the parties involved.

By contrast, the infrastructure for Russian gas exports is non-existent in the East: the first export-oriented oil pipeline was opened there as recently as December 2009. Importantly, some advantages from Russia’s closer involvement with its Asian partners can be discussed. Possibilities exist 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 most technologically challenging offshore wells were drilled on the Sakhalin shelf, Russia’s higher quality oils – on which Russia counts in its aspirations to improve the price of Russian crudes in the world market – are yet again found in East Siberia and Sakhalin.<sup>29</sup> Finally, by expanding its exports to Asia, Russia is seeking to capitalise on Asia’s already enormous demand for oil and gas which is projected to increase.

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

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29 At the moment, there are five greatly different content blends by sulphur: 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).

## Russia–Europe: energy ties and energy policy

Despite all the speculation concerning the EU's insecure position in terms of Russian energy supply, Russia's position in the European market may be no less precarious. A number of factors, such as the ongoing structural transformation in the gas market (with the sequels being lower price, shorter terms of supply contracts and so forth), the EU's policy of diversification of both energy sources and sources of supply and so on not only endanger future Russian supplies, but – given that energy flows create a chain of effects – also affect Russia's trade, investment, technology exchange and a great deal besides.

In 2009, the economic recession and structural shifts in the gas market itself have resulted in less demand for Russian gas. Apparently, Gazprom is increasingly challenged in retaining a lucrative European market. Current transformations of the international gas market shape an environment with which Gazprom's business practice is highly incompatible. Gazprom's contracts are usually of 20–30 years duration with a 'take-or-pay' clause. Another disadvantage of Gazprom's practice is pricing, more precisely, the gas price is traditionally pegged to the oil price. Amidst the economic recession, such commercial terms have additionally reduced the attractiveness of Gazprom.

### *Russia–EU Energy Dialogue*

In the recent past, Russia–EU energy relations were affected by a range of discourses. Such included the EU's enlargements in 2004 and 2007, the Russia–Belarus dispute in early 2006, the especially acute controversies between Russia and Ukraine in 2007 and 2009 and the Russia–Georgia war in August 2008. These events deepened the divergences in the partners' views, expectations and ambitions. Questioning Russia's reliability as a major supplier, the EU has moved to strengthen a common external energy policy. In 2009, the Eastern Partnership Energy Security Platform<sup>30</sup> was established to become an additional means (to the Energy Community Treaty<sup>31</sup> and the ETC) to conduct a robust external energy policy, of which the neighbourhood and enlargement policies are the essential elements. The EU is developing 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 and Turkey). New initiatives include the establishment of partnerships with Azerbaijan, Kazakhstan, Turkmenistan, Africa and Iraq, as well as the development of the legal frameworks for supply routes, such as Nabucco IGA and Corridor Agreements.

Russia's energy relations with the EU are framed by the EU–Russia Energy Dialogue, which was launched in 2001 with the aim of fostering bilateral energy relations. In 2006, three thematic groups were established to deal with energy efficiency, energy market development and forecasting and scenarios. However, relations between Russia and Europe, traditionally technically es-

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30 Eastern Partnership. Platform 3. Energy Security. November 5, 2009 < [http://ec.europa.eu/external\\_relations/eastern/platforms/docs/platform3\\_051109\\_en.pdf](http://ec.europa.eu/external_relations/eastern/platforms/docs/platform3_051109_en.pdf) >

31 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.

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 down on its dependence on Russian energy supplies. To do so, the European Commission has adopted the "EU Energy Security and Solidarity Action Plan: 2<sup>nd</sup> Strategic Energy Review", envisaging the diversification of the EU's energy supplies.

Rather unexpectedly, given the severe impacts of the 2008 crisis on the Russian economy, Russia has refused to ratify the Energy Charter Treaty, citing its interest in establishing a more just system for international energy cooperation. Additionally, Russia – EU official relations moved onto somewhat less secure ground when the EU–Russia Partnership Agreement elapsed in 2007. Effectively, Russia–EU energy dialogue became almost the only framework through which to maintain bilateral energy relations.

The overall objective of the Russia–EU energy partnership is worded as follows: "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."<sup>32</sup> Logically, strong, mutual dependency in the energy sector results in energy security becoming a pivotal aspect in EU–Russia energy relations. However – and the excerpt from the document perfectly mirrors this – Russia's energy security is not referred to as a matter of equal importance. More concretely, the document states that the objective of bilateral dialogue is to ensure the energy security of the EU and transform Russia's related policies into a mode more compatible with the EU's paradigm. Unsurprisingly, the two sides face difficulties in achieving this seemingly shared goal of ensuring energy security.

*Nord Stream, Nabucco and South Stream: grands projets et les petits partis*

Three gas pipeline projects – Nord Stream, Nabucco and South Stream – are of major significance for future Russia–EU gas relations. They also involve the interests of many smaller and large Eurasian powers and the US.

2009 witnessed clear progress in the Nord Stream gas pipeline project, and this progress resulted from various deals which were not necessarily inter-linked with the project itself. Reportedly, Finland has decided in favour of the project due to Russia's reciprocal moves, i.e. Russia's promise not to increase export duties on timber until 2011; meanwhile, Denmark's opposition was softened by Russia's support for the UN Climate Change Conference in Copenhagen in December 2009. Accordingly, by the end of 2009 all the governments in the Baltic Sea region had granted construction permits to Nord Stream to use their Exclusive Economic Zones for the pipeline. This enabled the project's launch on April 9 2010. Importantly, the Russian government assigned the project a central role in fostering international cooperation in the energy sector. In particular, foreign companies possessing adequate technical, technological

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



and financial potential for the development of the Arctic projects are repeatedly invited to develop joint undertakings in Russia.<sup>33</sup>

For a number of reasons explained in more detail below, the future of the South Stream project, which originally stemmed from Russia's discontent with frequent transit irregularities with Ukraine, is now not as definite. The same applies to the prospect of the Nabucco pipeline project, which was initiated by the EU as the means to safeguard its energy supply security. The two projects are in a sense competitors for both upstream sources and consumer markets. While political and geopolitical factors (Iraqi supply, transit through Turkey and Georgia and so on) diminish the competitive status of the Nabucco, the project seems much more attractive economically. By some estimates, the Nabucco's tariff is €1.7/1000 cm/ 100 km, while South Stream's is €3.8/ 1000cm/ 100km. Similarly, an evaluation of wellhead-to-market costs for Nabucco is €77/1000cm, which is significantly lower than €106/1000cm for South Stream.<sup>34</sup>

Strictly speaking, Russia–EU gas relations are not bilateral as they are heavily influenced by third countries. While some of these countries act as potential competitors to Russia, challenging its status as a supplier, the others, such as transit states, are at power to affect equally the interests of Russia and the EU.

In recent years, Turkey's importance in Russia–EU gas affairs has increased remarkably. Bidding to become a transit hub for Europe-oriented gas flows, Turkey shows "a true exercise of Byzantine diplomacy",<sup>35</sup> sending out mixed signals to both Russia and the EU. Despite the Turkish government's decision to join Nabucco in 2009 (approved by parliament on March 4 2010), vital talks between Turkey and Azerbaijan did not advance. Apparently, the 2009 Turkey–Armenia Protocols on establishing diplomatic relations and opening up their shared land border have added some complexity. Additionally, Turkey unveiled its own plan with regard to Azeri gas, envisioning the shipments to Greece and Italy bypassing Nabucco. By the same token, on August 6 2009 Turkey granted access to Russia's South Stream gas pipeline through its part of the Black Sea. In return, Russia has pledged to support the Samsun–Ceyhan pipeline. This will carry Russian oil from the Black Sea to the Mediterranean and competes with the Baku–Tbilisi–Ceyhan pipeline, which is preferred by the West.<sup>36</sup> A second Blue Stream pipeline was also approved.

Likewise, Azerbaijan's simultaneous involvements with Russia, Iran and the EU are no simple matter. Under the deal signed between Gazprom and SOCAR (the State Oil Company of Azerbaijan Republic) from January 1, 2010 Russia imports 1 bcm in 2010 (2 bcm in 2011–2014) paying Azerbaijan \$350 per thousand cm of natural gas – the highest price Russia has ever paid for natu-

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33 Norwegian companies were characterised as such valuable partners. On June 5, 2009 Gazprom and StatoilHydro concluded a MoU on joint development of the Arctic shelf, Shtokman, etc. Concluded on April 27 2010, the Russia–Norway agreement on the disputed zone in the Barents Sea comes as additional impetus for international cooperation in the High North.

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

35 Engdahl, William (2010) High-stakes European chess game: Russia's new geopolitical energy calculus. March 30 <<http://www.voltairenet.org>>

36 This may lead to Russia's abandonment of its Burgas–Alexandroupolis project.



ral gas from the Caucasus or Central Asia.<sup>37</sup> According to the long-term contract, Azerbaijan intends to sell all the gas from the Shah Deniz II offshore field to Russia, the very same field Nabucco hopes to tap. The agreement between Russia and Azerbaijan sets the stage for future bilateral cooperation whereby Azerbaijan's natural gas exports would pass through Russian territory, thus thwarting Europe's plans to transport Azeri natural gas via Turkey (or anywhere but Russia). Another blow to Nabucco was Azerbaijan's decision in early January 2010 to supply Iran with gas.

Commissioned in December 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 promises about gas supply, including for Nabucco. However, the China-oriented pipeline which is already operational and some other smaller scale projects underway, which are also reliant on Turkmen carbons, raise questions about the availability of Turkmen resources for Nabucco. This may well increase the significance of Iranian gas as a potential source for Nabucco, which is rather ironic given the backing of the United States for the pipeline.

#### *Transit in transition*

From Russia's perspective, dependency on transit certainly aggravates its energy security. The disruptions in supplies to Europe inevitably undermine Russia's reputation as a reliable supplier and trigger the EU's policy for diversification of energy imports. 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, Ukraine, Belarus and Poland, play an important – if not a critical – role in Russia's energy relations with Europe.<sup>38</sup>

The Russia–Poland transit case involved a principal disagreement about the tariff structure and control of the EuRoPol Gas Transit Gas Pipeline System (joint venture between Gazprom and the Polish national gas network operator, PGNiG, founded in 1993). Gazprom demanded greater control over the joint venture and insisted on reducing transit tariffs. On January 27 2010, Russia signed an agreement extending gas transit through Polish territory till 2045. The parties agreed that tariffs should bring guaranteed but not vast profits to both companies, Gazprom and PGNiG. Another agreed contract envisioned Russia's annual 10.27 bcm gas exports to Poland until 2037.

Ukraine plays a major role in the transit of Russian gas to Europe. Accordingly, Russia has always been interested in obtaining some form of ownership over the transit networks in Ukraine. Ukrainian opposition to a greater foreign presence has nevertheless prevailed. Positively, Ukraine is no longer seen as entirely a victim of Russia's hard-line energy policy. A number of experiences have questioned the fairness of Ukraine's transit policy. In particular, it has been pointed out that "[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 servan-*

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37 For gas from Uzbekistan and Turkmenistan, Russia pays \$300 per 1000 cm.f

38 The Druzhba oil pipeline traverses Belarus (Northern route) and Ukraine (Southern route). The gas pipelines Brotherhood, Soyuz and Northern Lights pass through Ukraine, while the Yamal gas pipeline crosses Belarus and Poland.

*da...*” and it has been 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.”<sup>39</sup>

Having suffered a number of disruptions in supply, in 2009 the EU multiplied its efforts to prevent any possible losses from irregularities in supply. In 2009, the EU proposed a programme called UGTS Priority Objects, Modernisation and Reconstruction<sup>40</sup> for the modernisation of Ukraine’s gas transmission system (UGTS). The EU has emphasised the importance of monitoring gas relations between Russia and Ukraine and intensified efforts in introducing comprehensive preventative measures. On November 16 2009, the Russia–EU Memorandum on Early Warning Mechanism<sup>41</sup> was signed to complement existing frameworks within the Gas Coordination Group, the Oil Supply Group and so forth.

For Russia, aside from the political implications, the transit has a rather clear economic dimension – the transit fee. Following the inauguration of President Yanukovich, a new round of Russia–Ukraine gas negotiations resulted in major agreements on April 21 2010. Russia agreed to a 30 per cent drop in the price of natural gas sold annually to Ukraine. In exchange, Ukraine extended Russia’s lease on a naval base at the Black Sea port of Sevastopol for 25 years. Although this Russia–Ukraine agreement has been coined a ‘gas-for-fleet’ deal, the bet was of a much larger scale. Apparently, the two parties are set to drastically enhance cooperation on various fronts (from joint projects in transport aircraft construction and nuclear power to building a grain terminal on the Black Sea coast).

In April 2010, Russia suddenly proposed merging Gazprom and Naftogaz. Apparently, Russia had some initial confidence that Ukraine would be willing to consider taking bilateral ties to new heights. Such high stakes could include the Russia–Ukraine negotiations on settling the territorial dispute over the Kerch Strait (a recent and inspiring example for Ukraine is the Russia–Norway April 2010 agreement on the demarcation of the disputed zone in the Barents Sea). Another persuasive argument – if not Russia’s trump card – is approval received for South Stream from all the countries involved in the project.<sup>42</sup> As President Yanukovich has repeatedly noted, Ukraine is seriously worried about the implementation of the South Stream. This will certainly be painful for the Ukrainian economy as the transit fee for transporting over 140 bcm of Russian gas and over 40 mn t of Russian oil is a considerable addition to the budget, which Ukraine would under no circumstances be willing to lose.

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39 Nies, Susanne (2009) Ukraine – a Transit Country in Deadlock? Four scenarios. Ifri Programme Energie Paris–Bruxelles. November. pp. 2, 3.

40 Available here: <[http://ec.europa.eu/external\\_relations/energy/events/eu\\_ukraine\\_2009/bekker\\_en.pdf](http://ec.europa.eu/external_relations/energy/events/eu_ukraine_2009/bekker_en.pdf)>

41 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](http://ec.europa.eu/energy/international/bilateral_cooperation/russia/doc/reports/2009_11_16_ewm_signed_en.pdf)>

42 Austria has even suggested claiming some exemptions from the EU’s regulation for this project, presumably with the aim of ensuring the project’s commercial feasibility.

On the whole, after a period of especially estranged bilateral relations, Russia and Ukraine appear to be seeking reconciliation, with pragmatism underpinning their undertakings.

Concerning Russia–Belarus transit relations, the linkage is significant volume-wise. Belarus is responsible for the supply of oil to 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, which “... fitted the immediate political and economic interests of the ruling elites on both sides ... For Russia, it implied huge costs in return for... largely symbolic benefits”.<sup>43</sup> Meanwhile, Belarus has benefited significantly.<sup>44</sup>

The Russia–Belarus energy relationship is not a smooth one; there have been a number of rows (in 1997, February 2004, December 2006–January 2007 and December 2009). As with the Ukraine, their 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” by playing a lost-empire card, starting from 2000, 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 believed, would be a guarantee of his “personal political survival”.<sup>45</sup>

The 2009 Russia–Belarus disagreement arose over oil price and customs duties for Russian oil to be delivered under a new contract to Belarus via the Druzhba pipeline. The previous contract (which expired on December 31, 2009) provisioned a reduced rate of customs duties for Russian oil. Since the parties failed to reach a consensus by the beginning of 2010, the supply was levied at regular rates. Belarus expressed its utter discontent with such an arrangement, pointing out that, if anything, this undermined the very basis of the Customs Union, enacted from 2010. In fact, all along Belarus has been exporting the oil products manufactured from much of 22 mn t of Russian oil to the EU. Although 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,<sup>46</sup> making up around a third of Belarus’s export revenue, while Russia’s loss of profit is estimated at \$10 bn annually.<sup>47</sup> For the new contract, Russia reasonably proposed that only oil designated for Belarus’ domestic needs would be duty-free, but Belarus has

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43 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. Chaillot Paper No. 119. p. 79, 87.

44 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 per cent of GDP, with 6–7 per cent resulting from subsidised gas prices and 3 per cent from oil prices.

45 Gromadzki, Gregorz (2009) Belarusian foreign policy – change or continuity? / In Back from the cold? The EU and Belarus in 2009. Chaillot Paper No. 119. p. 94.

46 Rubtsov, Ivan (2010) “Druzhba” druzhboi, a preferentsii vrozj// Expert No. 3(689) January 25.

47 Shishkunova, Elena, and Aglamishyan, Varvara (2010) Lozhka nefi// Izvestia. January 18.

been reluctant to agree to such a novelty in principle. As a persuasive argument, Belarus has chosen to threaten Russia by increasing a transit fee.<sup>48</sup>

In the gas sector, Belarus hosts a transit route for Russian gas, receiving a transit fee and gas for internal consumption at a rather attractive price (\$148 1000 cm as of 2009). It was agreed to increase the price of gas for internal consumption (to some \$174 1000 cm), but as recent developments in June 2010 have shown, Belarus keeps paying its gas bills at the 2009 price ignoring Gazprom's protests about its growing debt.

In the past, the bilateral course has become far from heartfelt. Arguably, the Russia–Georgia war played its part in Belarus' course to further distance itself from Russia (as it certainly sees itself within the zone of Russia's "privileged interests"). Russia's response was economic – 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 a \$2 bn loan. Belarus' retaliation was not economic – instead, it boycotted a June 2009 summit of the Collective Security Treaty Organization (CSTO). Recently, Belarus has demonstrated its willingness to become an active party in the EU's Eastern Partnership process. The latest developments of 2010 all serve as illustrations of the Belarusian 'rebellious' course: such developments include: the exports of Venezuelan oil; the activation of contacts with China (solidified by the low interest Chinese credits and interest-free loans of \$1bn and \$9bn); and, Lukashenko's gesture of goodwill to grant asylum to the disgraced Kyrgyz President Bakiev in April 2010.

For the Belarusian transit disease, meanwhile, Russia has prescribed the BTS II pipeline from Urecho (near the Russia–Belarus border) to Ust Luga; its construction began in 2009. As may be detected from the Russia–Belarus oil transit skirmish, the matter is largely Belarus' responsibility. When faced with the ramifications of its current policy, however, Belarus may well regret its lack of cooperativeness when this option was at its disposal. One discourse to learn from is Ukraine–Russia relations before 2010. While President Yuchenko emphasised Ukraine's Western priorities by pursuing its accession to NATO and the EU, relations with Russia were steadily tailing off. When Russia retaliated by attempting to circumvent the Ukraine as a transit route for Europe-oriented energy flows, the probable implications of such short-sighted Ukrainian policy became rather explicit. Although Ukraine's systemic failures and miscalculations in its policy towards Russia were admitted promptly by Yanukovich after his accession to the presidency<sup>49</sup> and a more constructive period in bilateral relations resumed, it remains unclear whether Russia will decide to implement its ambitious South Stream pipeline project. If completed, the South Stream project along with Nord Stream would make transit volumes passing through Ukraine shrink by some 50–60 bcm: this would render the lion's share of the Ukraine's existing energy transmitting infrastructure inoperative<sup>50</sup> and cost the economy enormous amounts of lost transit revenue.

48 Oil.Ru News. January 15, 2010 <<http://www.oilru.com/news/157165/>>

49 Yanukovich v sluchae izbraniya prezidentom aktiviziruet otnosheniya s Rossiiskoi 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>>

50 Viktor Yanukovich, Leader of Regions Party and presidential candidate quoted by RusEnergy. December 21, 2010 <<http://www.rusenergy.com/ru/news/news>>

Indeed, the transit states, long regarded as hostages to Russia's tough policy, were in fact rather successful actors within a certain segment of the energy export business. The years of the oil and gas bonanza, however, made the transit states less concerned about pursuing a more balanced approach which took into account primary (Russia) and final (European importers) consumers' interests. Meanwhile, competition in the transit segment itself has been gradually growing.<sup>51</sup>

As a whole, the transit problem which occasionally arises between Russia and the Former Soviet Union seems largely due to disagreement about the mechanisms of sharing the benefits from energy prices subsidised by Russia. Arguably, subsidised supplies have created a certain type of corruption (nourished by revenue from the reselling of Russian oil and gas abroad at world prices) in the FSU countries involved in Russian energy transit. It therefore no longer seems apt to analyse Russia's energy relations with the transit states through the prism of 'angels and devils' (who is which in this scenario so popular with the western audience, is clear).

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

## Russia and Central Eurasia

Russia's approach towards Central Eurasia is perceived either as an attempt to regain the status of a Great Power, or keep other states, first and foremost, China,<sup>52</sup> from gaining 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 with reality, wherein the Central Eurasian states are increasingly pursuing their own strategic goals in both the regional and international arenas. Recent developments in the energy sector, not exclusively in oil and gas but also in uranium, have demonstrated that Russia does not stand guard over the natural resources of the Central Eurasian states. In contrast, a new pattern of cooperation seems to be emerging, with a format in which the parties make their choices based on weighing up the pros and cons of their decisions.

### *Energy in Central Eurasia: potential and conditions for cooperation*

As recently as 2005, a chapter in a comprehensive volume on energy and security issues<sup>53</sup> and the future of Eurasian transportation did not pinpoint Turkmenistan as a prominent energy producer. In recent years, however, Turkmenistan

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php?id=48641>

51 Winrow, Gareth (2009) Turkey, Russia and the Caucasus: Common and diverging interests. Chatham House. Briefing Paper. November REP/ EP BP 2009/01. p.21.

52 Baev (2008).

53 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.



has emerged as possessing remarkable gas reserves and has become a significant actor in the global energy arena. The other energy powers in the region are Kazakhstan and Azerbaijan. While Kazakhstan has significant oil resources, Azerbaijan is endowed with more or less equal amounts of oil and gas.

Nowadays, practically every major energy actor has some interest in Central Eurasia. Russia has traditionally been involved in large-scale energy cooperation there, initially with the republics of the former Soviet Union, later with these states as staunch allies. In the wake of the demise of the former Soviet Union, the Central Eurasian states have pursued various policies, but given the economic hardships they were facing, the development of natural resources has become a priority for all of them. Though Russia was initially a major partner and mediator in the energy contacts of the Central Eurasian states, in the second half of the 2000s these states have gradually started mastering more independent lines.

Relations with the countries of the former Soviet Union in Central Asia are pivotal to Russia due to two principal considerations. First, this is a realm enabling Russia to expand cooperation in many fields, particularly with Kazakhstan, Turkmenistan and Uzbekistan. Second, this cooperation helped Russia fulfil its export commitments, chiefly to Europe and especially in the pre-crisis period of high energy demand. During the period of an exceptionally favourable conjuncture on the energy market, and while seeking to benefit additionally from possessing an expansive resource base, the Central Eurasian states started revising their energy policies. Currently, the geographical diversification of energy ties is becoming their principal aim.

It is not exactly true that this move took Russia by surprise, but it did force Russia to adjust its own course. After a period of uncertainty when various tactics were examined, Russia has managed to renew the grounds for energy cooperation with the Central Eurasian states to somewhat mutual satisfaction. It may be said that energy cooperation between Russia and the Central Eurasian states is largely a product of the intersected ties and intertwined interests of the national political elites. The national governments are explicitly willing to maintain a certain degree of coordination in the sector. One of the factors at play here is Russia's distinctiveness compared to the Western countries: Russia "...does not link its assistance to political conditions", and the Central Asian regimes are particularly "appreciative of this".<sup>54</sup>

Russia has long played a structuring role in the development of the Central Eurasian hydrocarbon trade. Although in a sense a transit state, Russia has nevertheless acted as a re-exporter (strictly speaking, even as an exporter), taking advantage of the Soviet-era energy transport infrastructure. However, it became clear that Russia could no longer control either the flows or prices of Central Asian gas and oil. The increasingly diversified energy relations of the Central Asian states – above all, thanks to expanded ties with China, but also with Iran (gas from Turkmenistan and Azerbaijan) and Europe (oil from Kazakhstan via the Baku–Tbilisi–Ceyhan pipeline) – strip Russia of its dominance.

The reality in Central Eurasia is that Russia is increasingly confronted with the need to move away from the unilateral leadership model prevalent

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54 Laruelle, Marlene (2009) *Russia in Central Asia: Old History, New Challenges?* EUCAM. Working Paper 03. September. p. 5.



throughout the 1990s and in the early years of Putin's presidency. It also needs to accept power-sharing as a new *modus vivendi* with rising regional powers (Kazakhstan and Turkmenistan, in particular) and with other powerful external players in the region. In this context, one remarkable shift is that Russia attaches increasing importance to such regional organizations as the CSTO, the EurAsEc and the Shanghai Cooperation Organisation.

*The independent pipelines of the Central Eurasian States: implications for Russia*

As Table 1 shows, Central Eurasian countries have a significant potential to boost their energy exports. Turkmenistan, as by far the largest possessor of natural gas in the area, is apparently shaping trends.

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

**Table 1** Central Eurasian gas export potential. Table composed by the author based on various sources.

2009 was a remarkable year for concrete achievements in the energy policy of the Central Eurasian states. In the midst of the world economic crisis, they significantly enhanced their status in world energy affairs. They have expanded energy export routes and proposed a number of new projects for international cooperation.

In implementing foreign energy policy, the Central Eurasian states attach primary importance to a pragmatic approach. Several initiatives have been proposed by the Turkmen President, one of which (Reliable and Stable Transit of Energy and its Role in Ensuring Sustainable Development and International Cooperation) was adopted by resolution of the UN General Assembly in December 2009.

December 14 2009 witnessed a climax in Central Eurasian modern energy policy. On this date, widely regarded as historic and signalling a new era for the independent entry of Turkmenistan into the global gas arena, the Trans Asian gas pipeline was put into operation. This pipeline, the longest ever, connects Turkmenistan with China through Uzbekistan and Kazakhstan (the TUKC gas pipeline).

In light of this, Russia, Turkmenistan and Kazakhstan's joint plan to build a new gas pipeline circumventing the Caspian Sea is now being questioned. Earlier, Turkmenistan and Kazakhstan had promised to provide the Caspian Gas pipeline with up to 20 bcm of gas annually by 2009–2010. However, their

significantly increased engagement in many other large-scale pipeline projects casts doubt over their ability to live up to their export commitments.

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. Russia, thus, turns into but one actor in the Great Energy Game taking place in Central Eurasia. By pursuing a pragmatically-oriented energy policy, Russia has chosen to secure its role in Central Eurasia by optimising the price and volume terms of the existing deals and by compromising on new agreements.

## Russia in Northeast Asia

There is no agreed vision on the geographical contour of Northeast Asia. In most instances, Northeast Asia as a whole encompasses the People's Republic of China (China), Japan, the Democratic Republic of Korea (the DPRK), the Republic of Korea (Korea), Mongolia and the Russian Federation (Russia). In the present study, Russia's energy relations are analysed with three Northeast Asian states: China, Japan and Korea.

Russia's relations with the Northeast Asia countries have seen ups and downs and have developed at different tempos. A 'triple shocks' framework, suggested by a Korean expert, seems to be helpful in identifying the main currents that have steered Russia towards the Northeast Asian states. "The 'triple shocks' – the end of the Cold War, the 1997 Asian financial crisis, and the 9/11 terrorist attacks – each played a role in pushing forward ... Russian evolution from neofeudal governance<sup>55</sup> and a strategy of disengagement to neoabsolutist governance and a more neomercantilist strategy".<sup>56</sup>

In the early 2000s, two competing visions were formed of the future development of Russia's oil and gas sector in relation to Northeast Asia. One was planned by private companies (Yukos, Lukoil, TNK and Sibneft), and was 'ideologically' inspired by Michael Khodorkovsky. Had this grand plan been implemented, the geography (and geopolitics) of Russia's energy relations would have been significantly entrenched along two arches – one Chinese (with the Angarsk–Daqing oil pipeline as the pivot) and one American (the Western Siberia–Murmansk oil pipeline) with a major role played in the sector by private business. However, it was decided to develop Russian energy with the government's active involvement.

The geographical priority of Russia's energy policy in Northeast Asia had initially been set on China alone (the Angarsk–Daqing oil pipeline). Suddenly, however, Japan changed this scenario. It is now admitted that it was Japan that managed to convince the Russian government not to play the 'Chinese card' only, but to make a decision opening up prospects for engaging with the broader Asia Pacific Rim.<sup>57</sup> This Japan did through its promises to allocate sizable

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55 This refers to a federal system which emerged after the demise of the USSR with its centre – periphery relations.

56 Northeast Asia. Ripe for integration? (2008)/ Ed. by Vinol K. Aggarwal, Min Gyo Koo, Seungjoo Lee, Chung-in Moon. Berlin: Springer-Verlag. p.180.

57 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](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 [Report on the year

amounts of investment in energy, transport and social infrastructure in East Siberia and the Far East.<sup>58</sup> Apparently, shifts in Japan's and later in Korea's energy import policies envisaging the involvement of Russian resources contributed to Russia's decision to set about developing the resource base in the Russian East.

A policy emphasis on the expansion of energy cooperation with Asian countries, called 'the Asian vector', was proclaimed in 2003 in the Energy Strategy until 2020. It was initiated to reduce Russia's over-dependence on the European market, minimise risks associated with transit, and, not least, enhance the economic development of Russia's eastern regions. Additionally, to meet these ambitious goals in the East, the government has approved a range of sector- and region-specific initiatives.

*Russia's oil and gas relations with the Northeast Asian states*

The Northeast Asian countries are distinguished by their profound dependence on energy imports and especially high vulnerability in terms of Middle Eastern supplies (see Table 2).

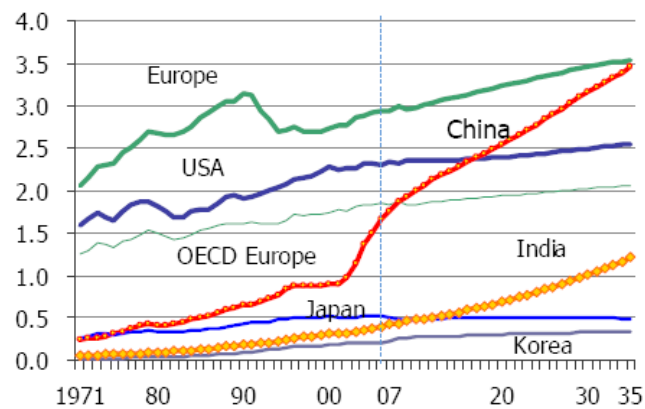
Country	Position in the world's import ranking, 2008		Primary energy demand average growth rate	Net import oil dependency		Dependency on Middle Eastern oil		Net import energy dependency		
	Oil	LNG/ Gas		2009	2030	1994	2008	1980	2002	2030
China	2	9	3.7	51.3	77	18.9	42.2	-3	0	18
Korea	5	2/9	2.0	100	100	63.9	82.2	77	84	77
Japan	3	1/1	0.5	99.7	100	67.3	88	88	82	78

**Table 2** Energy security indices for Northeast Asian states in per cent. Table composed by the author based on various sources.

Already major consumers, the Northeast Asian states are expected to demonstrate growth in future demand. China's primary energy demand is forecast to become the largest in the world, surpassing that of the US by around 2020 and that of all European countries by 2035 (refer to Graph 2 on next page).

2004 study on Russia and CIS countries' Resource Strategy. Ministry of Foreign Affairs: Japan Institute of International Affairs. March 2005].

58 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).



**Graph 2** Northeast Asia in world primary energy demand, b toe. Source: Kanekiyo Kensuke (2010) Geopolitics of energy and global warming in Northeast Asia. April. IEEJ <<http://eneken.ieej.or.jp/data/3109.pdf>>

Russia is the only energy self-sufficient economy in Northeast Asia. Objectively speaking, data on Russia's hydrocarbons located eastwards are inexact, as only 6 per cent of the continental shelf and 7.3 per cent of the onshore area have been covered by geological exploration. 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.

Gazprom estimates gas reserves at 52.4 tn cm on-shore and 14.9 tn cm off-shore, part of which could benefit the Northeast Asian states. In the vast area of East Siberia and the Far East, Gazprom is pursuing an ambitious Eastern Gas Programme, which envisages gas output at over 200 bcm annually by 2030 (from 8 bcm in 2006). Four centres (Krasnoyarsk, Irkutsk, Yakutia and Sakhalin) of gas production in East Siberia and the Far East are scheduled to be activated depending on the degree of their current development. Initially domestically-oriented, the Sakhalin–Khabarovsk–Vladivostok and Yakutia–Khabarovsk–Vladivostok gas pipelines have recently been planned to become a part of the transport network enabling future exports to China and Korea.

2009 witnessed remarkable developments in Russia's cooperation with Northeast Asia in both the gas and oil sectors. The Sakhalin II LNG plant was launched, from which Japan receives up to 65 per cent of the plant's output, while Korea imports about 15 per cent of the LNG. Due to an ambiguous situation for Russian LNG in the US the Japanese and Korean markets are extremely attractive to Russia. Unlike the situation in North America, the competition for LNG in Northeast Asia may even decrease because of the reduction in LNG exports by Indonesia and Malaysia, traditional suppliers of LNG to Northeast Asia (Indonesia and Malaysia are facing a two-fold challenge: depletion of domestic gas reserves and growth in domestic energy demand).

Gazprom has long hoped to open up a supply relationship with China (this is believed to be one reason for Gazprom's interest in Sakhalin I), but no fruit has yet been yielded. Russia and China signed a memorandum of understanding (MoU) in March 2006, agreeing on up to 80 bcm of annual exports to China from 2011. A similar agreement was signed with Korea in October 2006. In principle, two export routes have been considered: the western one (the Altai project relying on the Siberian fields and directed to China) and the eastern one (gas of Sakhalin origin transported through the system of domestic pipelines for

both internal consumption and export to China and Korea). Due to apparent disagreement with China on price (Gazprom has pushed for netback parity with its sales to Europe, but China refused this as unacceptably high), little progress has been achieved in subsequent years. Thus, the prospects for piped gas exports to the Northeast Asian states remain blurred.

Oil exports, however, are enabled through the shipments of oil extracted in Sakhalin and in East Siberian fields. In 2009, 39.6 per cent of oil extracted at the Sakhalin I and II projects was sent to Korea, 38.4 per cent to Japan, and the remainder was split evenly between China, USA, Philippines, Taiwan, Thailand and New Zealand.

Another route for oil deliveries to Northeast Asia 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 ESPO-1 is 30 mn t: 15 mn t are to be sent to China (by rail, before the Skovorodino–Daqing spur is completed); another 15 mn t are to be transported (also by rail, before ESPO-2 completion) to Kozmino port, from which the oil is shipped to a number of consumers.

Strictly speaking, the ESPO project has yet to become commercially viable, and it is uncertain whether it will ever generate profits. Seeking to facilitate the eastwards shift in Russian oil export, the Russian government decided to subsidise ESPO-borne exports by suspending export duties on East Siberian oil (to be partially re-enacted from July 2010) and through a preferential transport tariff for ESPO crude (set at \$50/t, while the actual cost is \$130/t). The Ministry of Finance is strongly opposing any further extension of these ‘eastern tax holidays’, pointing out the budget losses of some 120 billion roubles in 2010 alone.

Russia’s prospects of strengthening its position in the Asian oil market seem rather positive. Due to China’s oil demand, the Asian market is larger and more vibrant by far than the European one. Also, the infrastructure enabling Russian oil export to the Asia Pacific Rim (APR) is gradually coming in place, thereby solidifying Russia’s energy ties with the APR and transforming these relations into a long-term format. For Russia, closer involvement with the Asian market is a plus because this market is most likely to yield a higher price, compared to the European one. For their part, the Northeast Asian economies, traditionally suffering a burden of the Asian premium, would enjoy newly emerging oil flows. Adding to the economic benefits, the time required to deliver Russian exports to the Asian markets is significantly shorter – just five days – while the delivery of supplies from the Middle East, Africa and Brazil requires at least two-week’s sailing. Also, considerations of the security of sea lanes (especially the Strait of Hormuz and the Strait of Malacca) favour a switch towards Russia’s greater share in Northeast Asian oil imports.

Some analysts anticipate certain structural shifts in Russia’s oil exports: they argue that as the ESPO enables swings between the West and the East, it can therefore significantly change Russia’s exports dynamics. This view, though, should be taken with a pinch 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 ones, are rather unlikely because Russian oil companies have a more or less clear geographical concentration of production, and the export linkages are established subsequently (quite literally, the companies producing oil in Russia’s West tend to export it westwards).



Some industry experts consider another possible sequel of the diversification of Russian exports – an upwards shift in the price for Russian oil. Pointing to 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 (traditionally traded at some 70 cents discount against Brent). However, the price shifts should be scrutinised in a broader framework in which the higher quality parameters of the new Russian ESPO blend are a more plausible reason for the higher prices.

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

Japan is Russia's traditional partner, who significantly contributed to the development of the Far Eastern energy projects and demonstrates its interest in further expansion of energy cooperation. With China, Russia has the most diversified energy contacts, including the nuclear and electricity sectors. Nonetheless, the bilateral energy dialogue is often formatted in a way which seems to benefit China to a greater extent. One case exemplifying this particularly aptly is the 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 Central Asian states, but also thanks to China's stronger financial capabilities, which have been extended to Russian Rosneft and Transneft in the form of loans. Perhaps the larger format of the Shanghai Cooperation Organisation energy community may help Russia level off its status against China. Finally, Korea, which compared to China and Japan initially appeared relatively less interested in energy cooperation with Russia, has come to form oil and gas ties with Russia.

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



# The transformation of the policy paradigms

While analysis informed by normative perceptions maintains that Russia uses energy as a political tool, a more comprehensive examination reveals that Russian foreign energy policy is shaped by various domestic and external factors. Below, some principal facets of transformation pertaining to each geographical dimension are discussed.

## Russia–EU: from assured supplier to reliable partner

*Assessing the potential for dialogue to succeed*

As suggested by international relations theory, there are several prerequisites for dialogue to be launched, and certain aspects should be fulfilled for the dialogue to be constructive:

1. the preferences of the sides concerned should be clearly defined and converge to some degree;
2. the existing environment for the dialogue should be assessed and its desirable parameters formulated; and
3. the negotiation process should be formatted to enable the most positive outcome possible from the application of the two sides' bargaining power.

In the Russia–EU energy dialogue, although the parties' preferences have somewhat differing dimensions, the two sides accentuate similar areas of main importance.

First, *investment*. While the EU mainly seeks the means to ensure investment in supply diversification and the construction of new cross-border transmission infrastructure, Russia is additionally concerned with increasing investment in resource exploration and production and in the expansion of energy transport infrastructure. Furthermore, in pursuing its goals, the EU prioritises the rules of fair competition and market liberalisation, while Russia appears set on continuing – albeit with a number of alterations – a line of state energy governance. Since the 2008 crisis, although the Russian government has repeatedly stated its resolve to improve the investment climate to ensure more foreign capital in the Russian energy sector, the creation of a transparent and predictable environment safeguarded against sudden regulatory alterations remains a challenge. It therefore seems timely for the EU counterparts to formulate and express their preferences with respect to the terms they desire for their activity in the Russian energy sector.

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

Third, *energy efficiency and energy saving*. The EU has traditionally attached great importance to the issues of environmentally friendly and sustainable development;<sup>59</sup> meanwhile, Russia has just stepped up its efforts in this area.<sup>60</sup> For the foreseeable future, Russia will have to play “catch-up” to ensure clean, efficient technologies in energy production, transportation, distribution and use.

Concerning the environment for Russia–EU energy cooperation: although it was far from ideal earlier, it has now become even more complicated. This is because some of the previously used mechanisms within internationally institutionalised frameworks (such as the ECT) and of bilateral scope (such as PCA) are no longer employable. A new institutional and organisational setting for Russia–EU dialogue has yet to be established and this is linked to Russia’s accession to the WTO and the completion of Russia–EU negotiations on a new agreement for the bilateral partnership. Meanwhile, the energy dialogue format stands as the only expedient means to govern the bilateral Russia–EU energy partnership.

The Russia–EU negotiation process has often stumbled over obstacles from both sides. For the EU, one major problem in pursuing the energy dialogue with Russia was the EU’s failure to speak “with one voice”. The ratification of the Lisbon Treaty may help in this regard, as may the creation of a new joint European External Action Services (EEAS). In addition the adoption of the Third Energy Package envisaging the establishment of an Agency for Cooperation between Energy Regulators (ACER) may help achieve greater coherence at EU level through closer cooperation with national regulatory authorities, particularly over cross-border issues.

Apparently, negotiating an energy agenda with the EU was not that satisfactory a process for Russia. This was due to the dialogue mainly being constituted to best ensure the EU’s preferences and mostly satisfy the EU’s expectations from the energy partnership. Having comprehended this, neither Russia’s ECT discourse nor its other energy decisions appear purely assertive or squarely aggressive. For this very reason, to become an equal actor in a negotiation process, Russia is attempting to shape a new basis for the energy partnership. Again, breaking down an existing system with certain evident flaws before introducing a new solid alternative may be seen as unconstructive. Nevertheless, deeming 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 wrong. In reality, Russia is trying to become a party to a regulatory system which would take into account its prospects. One telling piece of evidence of this is the Conceptual Approach to the New Legal Framework for Energy Cooperation proposed by the Russian President on April 21 May 2009.

#### *New dimensions to be taken into account*

Several aspects have recently come to light that may somehow impact on the bilateral Russia–EU energy dialogue. These new dimensions can be presented as

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59 Green Paper European Strategy for Sustainable, Competitive, and Secure Energy (March, 2006); Energy Policy for Europe (January, 2007), Action Plan 2008 and 2009.

60 Federal Law N 261-FZ On Energy Saving and Improving Energy Efficiency, adopted 23 November 2009.

shaped largely within the bilateral discourse, informed by developments of more or less regional reach (mainly within the CIS context), and expedited by some global trends.

Russia has set modernisation as a prime policy aim embracing structural changes in every segment of the national economy. In this regard, the EU's prompt support for Russia in its programme dubbed "Partnership for Modernization" is promising for bilateral relations. This EU initiative wholly complies with Russia's concerns about the means to invigorate economic development, and constitutes solid grounds for enhanced bilateral cooperation.

Closely linked to the modernisation programme is the Russian government's concern about enhancing the investment climate. As far as practical steps are concerned, the government is scrutinising the development of a comprehensive mechanism favouring investment activity in Russia, including the creation of a better business environment for foreign partners. The stimuli under consideration include easing taxation, streamlining customs formalities, and measures to improve migration procedures, in particular for skilled labour and so forth. Also, a new round of privatisation of large Russian companies planned for 2010–2011 appears to be a real opportunity for European business to reassess the prospects and opportunities for the expansion of its ties with and in Russia.

Two increasingly important regional aspects may impact on the overall discourse of the Russia–EU energy dialogue. First, the long-planned Customs Union between Russia, Belarus and Kazakhstan was officially launched in January 2010. Although this harmonisation of customs regulation is not unproblematic, once the project is fully effectuated (from July 2010), some structural changes in the Belarusian and, possibly, Russian downstream sectors may be expected. Following the spirit of deeper integration, the formation of the Customs Union – via mechanisms of economies of scale and the international division of labour – may offer better opportunities for Russia–EU cooperation.

Second, there was a degree of rapprochement in the Russia–Ukraine bilateral discourse after the Ukrainian presidential elections in February 2010. The new Ukrainian government's course of *détente* in relations with Russia promises a more balanced format for the Russia–EU energy partnership. Ukraine's more cooperative spirit seems to have drawn 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 establishing a joint business unit, or tripartite (including the EU) involvement in the modernisation of the Ukrainian GTS). Generally, stronger Russia–Ukraine relations would certainly enhance bilateral cooperation in the energy sector with positive spillovers for the Russia–EU energy partnership.

On a more global scale, in 2009 Russia's status as the world's largest gas producer was reportedly usurped by the US.<sup>61</sup> This shift is more than a matter of prestige: it has clear practical implications for Russia's energy strategy and accordingly affects the EU. Evidently, the US' success in developing non-conventional shale gas production drastically changes its energy profile; from being an

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61 In March 2010, however, there were a number of statements that the US shale gas production data are very likely to be overestimated. This was explained by difficulties in collecting adequate information from numerous rather small-sized producers of shale gas.

importer, the US is turning into a self-sufficient gas producer, and possibly even into an exporter. Under such circumstances, Russia's largely US-oriented LNG-producing Shtokman project appears unfeasible.<sup>62</sup> Coupled with the decline in EU energy demand, this may effectively signal a possibility for the second phase of Nord Stream to be abandoned. Russia's strategic (mis)calculations may accordingly be corrected by the market, but given the scale of Russia-based energy projects, these shifts are certain to impact on major European energy-related businesses, as well as affect overall domestic industrial activity. Accordingly, assessing all the grand energy projects from a more united and economically sound perspective seems timely.

On 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 better consistency between the policies of the 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, exchanging data on energy supply and demand, production activities and investment needs would allow the two sides to make well-considered and timely decisions and conduct the bilateral energy cooperation more efficiently.

Another area of traditionally great importance to the EU and also rising to prominence on Russia's energy policy agenda is energy saving and energy conservation. This seems to be an especially promising area for future Russia–EU energy dialogue. Although in years past Russia has undertaken certain steps (target-setting in the Energy Strategy 2030, law on technical standards and so on), its policy remains fragmented. Once a more systemic approach to energy saving and efficiency is introduced domestically, international cooperation will also become more constructive. In this case, as it possesses the expertise, technologies and equipment needed by Russia, the EU will certainly be one of the key partners.

Evidently, concrete possibilities for fully fledged Russia–EU cooperation in the energy sector do exist. Although the Russia–EU energy dialogue can be characterised by weaknesses, this mechanism also possesses undeniable strengths, and must therefore be continued. It now seems important not to let the threats originating in the contemporarily loose institutionalisation of the dialogue process and the patchy character of the regulatory framework quell the opportunities to develop more comprehensive cooperation between Russia and the EU.

Following the ratification of the Lisbon Treaty, the EU is supposed to enter a new era of 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. At this stage of setting the EU's common external policy, it is important to position the Russia–EU energy dialogue to ensure the advantages of this framework are fully and efficiently utilised. Moreover, the creation of the Customs Union is a factor to be taken into account. This

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62 A final investment decision will now be reached in 2011 (instead of late 2010); the launch of piped gas supply from the field has been postponed from 2013 to 2016; and the launch of the LNG phase has been postponed until 2017 (from 2014).

integration initiative will to a certain extent influence the EU's Eastern Neighbourhood Policy. Both sides' involvements with the Customs Union constitute an additional agenda to be considered when formulating the new agreement for the Russia–EU strategic partnership. Moreover, perspectives for Russia–EU cooperation are to be defined while taking into account developments in the international arena, such as Russia's accession to the WTO.

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

### **Russia–Central Eurasia: from opportunistic merchant to businesslike partner**

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

However, claiming that Russia's policy transformation has resulted from its own calculations would be both naive and erroneous. On the contrary, Russia's policy transformation largely results from the Central Eurasian states' increasingly independent agenda at both regional and international levels. The foreign policy of the Central Eurasian countries is underpinned by the principle of multipolarity, projections of which can be discerned in the countries' energy policy. The Central Eurasian states allowed greater involvement of foreign investors in the exploration, exploitation and production of hydrocarbons, which triggered the active diversification of energy exports and the development of energy transport infrastructure. The circumstances of Russia's major departure from the post-Soviet period's mode of cooperation were that once the Central Eurasian states had developed alternative energy export routes, Russia, which had formerly withheld many benefits from selling Central Eurasian carbons to Europe, was forced to bring about a new pattern for cooperation.

What are the testaments of Russia's changed behaviour? First, one of the most notorious components of Russia's policy towards the Central Eurasian states – low prices for imported energy resources – has been 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 Central Eurasian states. Importantly, Russia's significantly decreased purchases from Turkmenistan are the result of newly concluded agreements in accordance with Russia's proposals. These smaller imports are almost entirely stipulated by the modestly recovering demand for gas in the European markets.

When analysing 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 occasionally overlapping layers.

Within the larger context of Central Asia, if not cooperation, then co-ordination of interests with China became Russia's policy choice. This is especially evident in 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 increasing attention. Explicit interests in the energy sector can be discerned in the involvement of various foreign companies in the region, such as BP (UK), Statoil (Norway), Total (France), Itochu and Impex (Japan), Chevron and ExxonMobile (US),



RWE (Germany) and so forth. However, there are also geopolitical issues, significantly, the Azerbaijan–Turkey discourse. Turkey is one of the regional powers with expanding ambitions. Indeed, Turkey has increased its efforts to play a greater role in the Azeri/Armenian *détente* and has activated a course of rapprochement with Armenia. While these moves directly affect Russia's status in the region, Turkey–Azerbaijan relations more than anything else define Russia's energy ties with Azerbaijan and, subsequently, Russia's stance on the European market. Simultaneously, the significance for Russia of an alliance with Turkey originates in the latter's officially proclaimed course of becoming a major energy hub for transporting oil and gas from the Caspian region, the Middle East and the Gulf to the European market. It remains to be seen, but before the Russia–Ukraine rapprochement began, there were expectations that intensified Russo-Turkish contacts could result in the realisation of 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, thus enabling the enlargement of exports and solidifying Russo-Kazakh energy links.

Another prominent actor by 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. First, there is Iran's nuclear program. On the one hand, certain responsibilities are incumbent upon Russia as one of the five permanent members of the UNSC. From this angle, Russia may have a certain degree of influence on Iran. On the other hand, Russia is genuinely interested in Iran being freed of UNSC sanctions, as its oil, gas and nuclear power sectors promise ample commercial opportunities for Russian private companies and state-owned enterprises. Second, although Iran is currently an observer to the SCO, it is seeking membership claiming this would be consistent with its 'looking East' foreign policy. Russia, as one of founders and one of the most influential powers in the SCO, could back Iran's accession. However, because of Iran's nuclear programme, Russia has chosen a prudent position, neither supporting nor opposing the accession. Third, Iran is the world's second largest possessor of gas and a member of the GECF. Russia and Iran, already outstanding gas actors, may increase their influence in global gas affairs, especially assuming the GECF 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 the two countries will not be competing for the same gas export markets.

Balancing all these multidimensional connections is vitally important to Russia. With pipeline projects still mushrooming, the majority of whose 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 energy transit chain to be established. Overall, it may be concluded that Russia is forming closer interlinkages with the regional Central Eurasian powers to secure its pragmatic interests well beyond regional borders, particularly in Europe and China. In so doing, Russia is composing a new pattern of cooperation with the Central Eurasian states, a pattern where Russia's ultimate benefits are becoming less definite or even shrinking, depending on the policy course of the counterparts and third parties involved.

## Russia–Northeast Asia: from inconsistent actor to mature state entrepreneur

Asia was not a priority in Russian energy policy until the 2000s when Russian private oil and gas businesses, led by Yukos and inspired by Khodorkovsky, proposed a grand design for international cooperation with China and North America. This was based on the energy resources of Russia's eastern provinces. The narrative is well-known: in 2004, the state rather swiftly redrew the plan revolving around Yukos' vision, but did not embark on its implementation as hurriedly. It took several years for a principle decision to be made concerning a spatial format for Russia's involvement with the countries of Northeast Asia – 'the China card', 'China and beyond' or Northeast Asia. During this lingering vagueness, the Northeast Asian states were attempting to suggest to Russia their visions of possible formats and offer various means to enhance energy cooperation. While Russia vacillated, the Northeast Asia states entered a 'scramble for Russian energy'. Once the decision was made and it became clear that the Russian government was set to play a key role in developing the oil and gas sectors in eastern Russia, the Northeast Asia states started demonstrating their interest. This aspect – the possibility for government-to-government agreements as a means to guarantee the energy security of both sides involved – played a positive role in the Northeast Asia states' aspirations to embark on more extensive participation in energy projects in eastern Russia. The number of Northeast Asian-based NOCs and smaller business units entering oil and gas segments in the Russian east has increased significantly.

The role of inter-governmental contacts within the Northeast Asian context is worth emphasising. Bilateral ties involve various actors, but in Northeast Asia companies do not usually involve themselves in activities unless governmental agreements have been struck. To some degree, this is because the government in this situation is regarded as the most credible actor and guarantor (despite the great variation in the systems of the Northeast Asian states, ranging from market capitalism to socialism). Also, Northeast Asia's regionalism (primarily framed by functionalist thinking) remains very weak and this contributes to the overall environment for cooperation, which is significantly different from what is observed in Europe, or North America, or even in South-East Asia. Largely due to these attributes of the region, Russia's policy-making rather fairly complies with the Northeast Asian states' norms and even acts as a catalyst enhancing energy cooperation on this flank.

Problems with energy transit through the post-Soviet states led Russia to realise clearly the need to revise its geographical priorities to utilise the benefits of 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 Northeast Asia nations. A leap forward in the form of the implementation of the East Siberian and Far Eastern energy projects (Sakhalin I and II and ESPO in particular) testifies to Russia's eagerness to attain the goals in national policy papers through bilateral coordination with the Northeast Asian states. There have been numerous twists and turns in the Russian position with regard to Sakhalin I and II and the ESPO and Altai developments, which seem settled at present. The near-future prospects for multilateral cooperation in Russia's east may be presented as revolving around these major projects.

To address the question of the viability of the government-to-government format for Russia's cooperation with the Northeast Asia troika, some comparative lines between the Northeast Asian states' national energy policies may be drawn. There are certain commonalities which derive from similar concerns about a deep dependency on energy import. Such include the high concentration of imports from a limited number of suppliers (dependency on the Middle East as a major threat), the high volatility of energy markets, the deteriorating environment and so forth. As a whole, these factors justify a government's more active involvement.

To commence energy cooperation with Northeast Asian states and ensure the development of this, the Russian government has offered unprecedented fiscal and other incentives. As the institutionalisation is rather weak of the multilateral cooperation in the Northeast Asian region, the policy framework is chiefly informed by bilateral intergovernmental agreements and energy dialogue formats. Importantly, provisions on a 'regional component' envisaging the enhanced economic development of East Siberia and the Russian Far East are the key elements of both agreement and dialogue formats.

Asianisation as a policy course is deeply pragmatic. There are objective factors increasing the attractiveness of the Northeast Asian market, such as an already significant level of energy demand, which is projected to grow (whereas the trend in the EU is stable or even declining). The geographical proximity of the Northeast Asian states is also particularly favourable, granting Russia direct access to Northeast Asian consumer markets without any transit or intermediary issues involved. Furthermore, the resource base adds to the attractiveness of the Asian markets: in the Russian east, the resource base is largely untouched (unlike in the intensively exploited provinces of Western Siberia), but believed to contain huge reserves. The logic of advancing the socio-economic development of Russia's eastern regions through the synergic effect of enlarged, international energy cooperation with the Northeast Asian countries is also incorporated in the policy-making process.<sup>63</sup>

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63 The importance of this aspect is specifically underlined in the Programme for Effective Utilisation of Foreign Political Factors on a Systematic Basis for Purposes of Long-Term Development of the Russian Federation (February 2010).

# Conclusion

Russia's long-term export dependence is the essential 'precondition' for its energy security concerns. Any prolonged disruption in its exports or a significant decrease in its volumes would undermine the ability of the Russian government and industry to sustain economic development, ultimately threatening national security. Russia's foreign energy policy serves to create a vitally important capacity to reduce Russia's vulnerability and maintain its energy security. Over the last two decades, Russia's foreign energy policy has been redefined against the backdrop of sweeping changes at systemic, transnational and domestic levels, and it can be expected to transform further towards acquiring features of a more nuanced system.

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, 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, Central Eurasia and Northeast Asia) are pursuing energy security by diversifying the sources of imports/markets for exports, there is even a certain degree of compatibility between the policies of Russia and the other states concerned.

Dynamism in international energy relations can be achieved only 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 Northeast Asian states – are more solidly established. However, the ongoing remapping of pipeline routes in the west, accompanied by emerging 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.

This study has shown that Russia's foreign energy policy had been evolving throughout the transition period, and is still changing to tackle new domestic and external challenges and seize opening opportunities. These various shifts in Russia's energy policy can be characterised as follows.

Towards Europe, Russia's policy course is changing from one typical of an *assured supplier* towards a pattern of a *reliable partner*. The primary reason for this shift derives from the profoundly symmetrical energy interdependence of the two sides. Regular transit conflicts directly affecting the EU's energy security and the EU's retaliatory measures to counterbalance the risks associated with supplies originating from Russia have led to Russia eventually realising that maintaining an assertive policy line is a precarious path. Accordingly, Russia has started paying due respect to its customers' national regulations on domestic energy markets and is demonstrating greater readiness for energy policy coordination. This behavioural shift has also been advanced by rapprochements with some transit countries, first and foremost Ukraine, but also Poland. Russia's own aspirations for domestic, technical and technological progress, also in the fuel energy complex, and innovative growth based on an energy-efficient economy, have definitely played a pivotal role. The EU readily responded to Russia's developmental ambitions by offering its backing in the form of the Partnership

for Modernisation initiative. In sum, this already well-established cooperation, which is also the most diversified, appears to be the partnership to help attain Russia's ambitious goals of sustainable economic development.

As regards the Central Eurasian energy resources, Russia seems to have departed from the course of an *opportunistic merchant* who took full advantage of some residual Soviet-era practices and benefited from the geographical location of major oil and gas pipelines which allowed Central Eurasian exports only through Russian territory. Nowadays, Russia is increasingly ushered towards a relationship between *businesslike partners*: this implies that gaining any energy deal involves negotiation and bargaining over the terms of price and volume. Certainly, the shift in Russia's policy towards the region was expedited by the policy course of the Central Eurasian countries which was called multi-vectored energy policy. This policy, vigorously pursued by the Central Eurasian states, has created a more competitive environment for international energy cooperation in the region and successfully launched the process of the diversification of the external energy links of the Central Eurasian states. Although the costs of Russia's energy policy here have definitely increased, the region remains very attractive as a bridgehead to expand the Russian NOCs' overseas operations. It also offers an opportunity to optimise Russia's energy flows and export routes and a means to advance the economic integration of the post-Soviet states.

The transformations in Russia's behavioural pattern on the Northeast Asian regional energy scene can best be described as a move from an *inconsistent actor* towards a policy of *mature state entrepreneur*. Indeed, a number of ambitious Russia-based cross-border projects were uncertain for nearly a decade. Such uncertainty was dispelled when the Russian government clarified its goals for energy cooperation with the Northeast Asian states, proclaimed the Asian vector as a major principle of Russia's energy policy, and subsequently proposed a system of fiscal and financial incentives and administrative levers designed specifically to commence the development of Asia-oriented energy ties. By developing cooperation with the neighbouring economies in Northeast Asia, the Russian government is attempting to address one particular concern: the social and economic enhancement of Russia's vast eastern territories. Taking into account all the synergic effects associated with energy sector development, this policy approach appears well-founded, and the eastwards move seems reasonable. Another significant aspect of developing energy cooperation with the Northeast Asian states originates in the prospect of diversifying Russia's energy exports away from the perilously profound dependence on European demand.

Objectively, not only benefits can be expected from these major shifts in Russia's foreign energy policy; there are also serious threats to handle and weaknesses to eliminate. Schematically, some principal outcomes of the transformation of Russia's foreign energy policy can be depicted in a SWOT analysis (see Table 3).



Strengths	Weaknesses
<p>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 modernisation in the sector;</p>	<p>Immense expenses and efforts associated with implementation of Asian vector;  Eastbound policy is driven by political and geo-political factors, many of which are uncontrollable;</p>
<p>Europe may irreversibly diversify away from Russian supplies;  Economic costs of grand shift towards Asia may not be recoupable;</p>	<p>New oil blend brand (higher price for Russian oil);  New centre for oil &amp; 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;</p>
Threats	Opportunities

**Table 3** Ramifications of Russia's West-Centre-East energy policy shifts: SWOT analysis.

As the matrix above shows, the shifts in Russia's foreign energy policy could generate an array of positive spillovers, some of which (for instance, the prospect of a higher price for Russian oil blends) had not been anticipated until the gradual materialisation of the Asian vector had started.

To sum up, Russia's foreign energy policy transformation is unfolding through three major processes, those in the realms of geography, economics and politics. In principal, Russia's simultaneous involvement with both the West and the East is defined by the logic of the concept of *Eurasianism*. At times when specific Russia's practices are absolutely incompatible with Western values (e.g. free competition, the rule of law, the transparency of decision-making processes and so forth), more flexibility and cooperativeness can be attained through the partnerships in the East. It can thus be argued that considerations of *pragmatism* significantly define Russia's foreign energy policy objectives and act as principal driving forces behind the transformations in every respective geographical dimension. The origins of the policy shifts are not so simple as to be strictly identified. In most instances, the momentum behind the policy transformations is prepared by a number of factors, which generally, mainly for analytical purposes, can be divided into two major classes: political (geo-polit-

ical) and economic (geo-economic). In reality, nonetheless, this divide is rather conventional, and the policy-making involves a permanent trade-off, balancing between and combining economic and political reasoning. Russia, for instance, has frequently been blamed for its politically motivated stance as regards energy supply to the EU, but practice shows otherwise. In the West, Russia is largely guided by the prospect of attaining a lucrative economic prize, while on the Eastern flank, security considerations predominate over commercial thinking. Lastly, Russia's foreign energy policy is influenced by a *multipolarity* concept, which implies safeguarding a secure environment for sustainable domestic development, maintaining regional stability and enhancing comprehensive international cooperation.

Russia's foreign energy policy should be perceived as a 'permanent' strategic problem. As a function of the country's industrial structure, resource allocation and geopolitical location, it is certain to appear as a critical issue in the future, though in what way depends on the course of economic and political trends unfolding both internally and externally.

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