Russia’s Energy Diplomacy: A Political Idea Lacking a Strategy?

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Understandings of Russian energy diplomacy often focus on its position as an ‘energy superpower’ that uses its resources as a political tool in international affairs. This article examines and questions this ‘superpower’ status, particularly noting gas shortages. The article also suggests that Russian energy diplomacy is flawed by a lack of a coherent, consensus-based strategy for achieving this ‘superpower’ status. Moreover, it suggests that in Russia’s case, weakness goes together with strength and obliges Russia to be cooperative in its foreign relationships. Nonetheless, Russian energy diplomacy in the last two years has been marked by failure.

Introduction

Russia’s emergence since 1999 as a leading energy producer and exporter has had a major impact on international affairs. Russia’s colossal energy reserves (as percentages of the world’s total reserves, it holds some 45 per cent of gas, 23 per cent of the coal, 14 per cent of the uranium and 13 per cent of the oil) encourage some to suggest that it could provide an attractive alternative to reliance on Middle Eastern energy reserves. Russian oil production and export has risen significantly since 2000. Indeed, 2006 saw record oil production levels, even temporarily exceeding Saudi Arabia’s production in August, when it produced 9.55 million barrels per day (mbd). Concurrently, Russia produced 1.7 billion cubic metres (bcm) of gas, making it the world’s largest energy producer. Coal production and export has also grown. Thus Presidential Advisor Sergei Prikhodko has stated that there is ‘no doubt that Russia is an energy superpower’ (cited in Matthews 2006). Other senior Russian officials, such as Energy Minister Viktor Khristenko, have sought to nourish this view of Russia as a key non-OPEC (Organisation of Petroleum Exporting Countries) power and repeatedly assert that Russia is a reliable energy supplier and that it only seeks to use its position as an important supplier to enhance global energy security.
High energy prices have turned Russia’s energy resource wealth into economic wealth and converted it into the engine of both domestic economic growth and political confidence on the international stage. It is, as President Putin has repeatedly noted, the basis for rebuilding Russia’s internal capabilities and international status. It also acts as a key element of Russia’s diplomacy. Thus the top priority for the Kremlin, as noted by Presidential Aide Igor Shuvalov, is to retain its image as a reliable supplier while keeping Russia’s interests in mind (cited in Aris 2007). Chief of Presidential Staff Vladislav Surkov has also noted that ‘we need to choose the approach that will work for us … the concept of Russia as an energy superpower fully corresponds to this view’ (cited in Milov June 2006a: 7; emphasis added).

However, increasingly Russia is seen to be an unreliable energy partner by some, and indeed a threat rather than a partner by others. With energy serving to increase Moscow’s confidence on the world stage, Russia is considered to be throwing its weight around and using its energy resources as a political tool to regain its influence, particularly in the former Soviet space. This is clearly emphasised by the image of Russian actions in the Black Sea region, illustrated by gas cut-offs to Ukraine and Georgia. The impact has reached much further than the Black Sea region, however. Eastern and Central European leaders have frequently asserted that Russia poses a serious threat to energy security. Plans to construct the Baltic Sea pipeline between Russia and Germany are considered to be a modern day ‘Molotov–Ribbentrop Pact’ in Warsaw, and Poland vetoed European Union (EU)–Russia energy negotiations in November 2006 in large part out of concern for its energy security and stability. Lithuanian President Adamkus noted in July 2006 that Russia is ‘using energy policy as a form of “blackmail” against those who will not do Moscow’s bidding’ (cited in Baran 2006: 33). The EU has also stated its concerns about Russia’s reliability as a supplier. In the United States, the accusations have been much more vocal. Senior American officials, including Vice President Dick Cheney, Secretary of State Condoleezza Rice, Director of National Intelligence John Negroponte, Senator Richard Lugar and, most recently, the new Defence Secretary Robert Gates have all questioned Russia’s reliability as a supplier and the responsibility of its actions in the international economy, and accused it of using its energy resources for political purposes.

Increasing authoritarianism in Russian domestic political actions and increased state control over the energy sector have both lain at the root of these concerns and fanned them. The main concerns therefore are clearly reflected in the statement of one high-profile publication that the ‘Kremlin is full of disturbing and counter-productive ideas these days on how it can wield its energy resources. … Though Putin and Gazprom constantly insist they are reliable suppliers, their record is far different’ as shown by the break up of Yukos, and the cut offs to Ukraine and Belarus (International Herald Tribune 2007). Others have gone further and asserted that this is part of a broader tendency in Russian energy policy that amounts to a challenge to American hegemony. Indeed, among a number of challenges to American hegemony according to two commentators, the ‘most strategically significant manifestation is Russia’s willingness to use its newfound external leverage to counteract what Moscow considers an
unacceptable level of US infringement in its interests’ (Leverett & Noel 2006: 62). One Russian expert has also argued that many in Russia consider the notion of an energy ‘empire’ to represent some form of geopolitical revenge for the defeat in the Cold War (Milov 2006c).

So the term ‘energy superpower’ as applied to Russia has both positive and negative connotations: one as the largest non-OPEC energy producer, facilitating a more balanced world energy outlook for consumers; and one as a state using its resources to assert its own national interests, dominate its neighbours and undermine the diplomacy of others in the international system who are unable to challenge Russia in case Moscow retaliates using its energy ‘lever’. Russia’s energy superpower status has therefore come to epitomise debates about Russian energy diplomacy.

This article examines Russian energy diplomacy and its energy ‘superpower’ status by looking at the connections between both the evolving domestic situation and Russia’s foreign relationships. Though there is an obvious interrelationship between all the issues, the article is presented in two main sections. The first examines internal aspects of the Russian energy sector that have an important impact on Russian energy diplomacy since they both create the conditions for it and also in part shape the views of Russia’s partners. The second section addresses Russia’s foreign relations, looking first at Russia’s relations with the Newly Independent States of the former Soviet Union (NIS), then Russia’s relations with the EU, focusing on the discussions about the Energy Charter Treaty (ECT) and the ratification of the Transit Protocol. The final part of this section examines Russia’s relations with other foreign partners, particularly its developing relations with the Asia-Pacific region and the potential for a gas cartel. The key points to emerge are that although there may be a political idea to use energy reserves to re-establish Russia as a great power, including in its foreign diplomacy, there is no coherent overall strategy behind this in terms of who will achieve what specific aim, with what resources and in what timeframe. Indeed competition between vested interests in Russia has undermined the possibility of achieving a consensus-based strategy. Moreover, Russia’s reliability as a supplier has been frequently questioned of late, in large part because of the perceptions of some of its actions in the Black Sea area, illustrating that Russian energy diplomacy in the last two years has, in sum, failed.

At this stage, it is worth noting two caveats. First, though the Black Sea region is of course a key area for Russian energy diplomacy—not least given its energy relations with, for example, Greece, Bulgaria, Ukraine, Georgia and Turkey (Russia’s relations with each of these states merits an article on its own)—this article attempts to focus on Russian energy in the broader international horizon. This facilitates a view of the context in which the Black Sea region fits in Russia’s energy diplomacy horizons. Second, given this broad approach, the article only briefly and lightly touches on a number of complex issues such as the break up of Yukos, the pressure brought to bear on international partners in the Sakhalin II project and the various cut-offs to Ukraine, Georgia and Belarus in 2006 and 2007. Again, each of these issues warrant an article in their own right, and it is to be hoped that subsequent research will address these issues in more depth.
Internal Dynamics of Russian Energy Diplomacy

The foundation of Russia’s energy diplomacy lies in the efficient exploitation of its huge reserves. However, this has proven problematic and the exploitation of the reserves has been inefficient and, to a considerable extent, incoherent. These problems have limited Russia’s capabilities and undermined the confidence of its partners. Despite the surge in production after 1999, oil production and export, particularly to the NIS, has slowed and become increasingly dependent on the production capabilities of a small number of large but mature fields. Gazprom’s production is stagnating and now also depends on a small number of very large but mature fields. If independent companies offer an alternative gas production capability within Russia, they face pressure from Gazprom and limitations on export since Gazprom dominates the export infrastructure.

This apparent paradox of great resource wealth but questionable sustainability is already creating concerns among Russia’s partners. Christian Cleutinx, Director of the EU-Russia Energy Dialogue, has estimated that by 2020, the EU’s gas requirements will rise by some 200 million metric tons of gas per year, but that Russia planned to expand its production by just 50 million metric tons per year by then and that this increase is not just for the EU, but other third parties also (Cleutinx 2006). Jose Manuel Barroso, President of the European Commission, also noted that in the ‘future the gap between supply and demand could become a serious problem’ (Barroso 2006). Indeed there is even concern about it sustaining Russian domestic requirements: German Gref has noted that a crisis of natural gas may hit Russia in the short term, with a deficit being clear by 2007–2009, reaching 120–124 bcm by 2010 and 186–343 bcm by 2020.

Such a situation raises two main concerns about the coherence of internal Russian energy policy. The first concern is the attempt to re-assert state control over the energy sector. The resource sector is considered by the Kremlin to be too important to be left to market forces, and state control and planning is considered to be both the best means of retaining Russian ownership and managing Russia’s natural resources (Balzer 2005: 218). This has led to the take-over of private Russian firms and reconsideration of foreign involvement. As one Russian commentator has argued, the ‘most critical step for Russia is to resolutely denounce the colonial style agreements [the Production Sharing Agreements, PSAs] with the global monopolies signed in the early 1990s which either directly violate Russian laws or cause unacceptable damage to Russia’ (Delyagin 2006). Furthermore, because foreign investors receive almost all the profits from Russian oil and gas, and Russia compensates their over-blown production costs and owes them money, priority should be given to Russian capital instead. Such views are reflected officially also: Yuri Trutnev, Natural Resources Minister, recently stated that the procedure by which foreign investors gain access to the Russian continental shelf and its resources will be toughened since these are Russia’s strategic assets. This approach of increased state control plays very well politically: both the expansion of the power of Russian state monopolies in the oil and gas sector, and the trial and imprisonment of Mikhail Khodorkovsky, have proven popular among a population that views the privatisation process of the 1990s very negatively.

Nevertheless, such policies have had a twofold impact. First, the less efficient state monopolies increasingly dominate production, with the result that overall production has stagnated. Moreover, there is little pressure on them to either invest in upstream development or reform to become more efficient. Second, it has had the effect of undermining both Russian and foreign private investor confidence in Russia. The break-up of Yukos and the pressure on the Shell-led consortium in the Sakhalin II project have served to illustrate the lack of clarity about tax, property and licensing legislation and weakened confidence in the investment atmosphere. These two points mean that the new fields, particularly in the Arctic and Eastern Siberian regions, which provide the key to the sustainability of Russia’s resources, remain under-explored and under-developed. Although companies such as Shell and British Petroleum reiterate their desire to work in Russia in cooperation with Russian companies and the Russian government, and although Gazprom has again offered possible contracts to develop the huge Shtokman field, the gap between the investor confidence and the huge sums of investment needed remains large and there is likely to be a lag time between the deterioration of the productivity of the old fields and when the new fields begin production.

The second main concern is the lack of coherence of an overall strategy for the development of Russia’s resources, and indeed what Russia’s national interests might be. This is not only because, as Milov (2006b: 14) notes, the authorities still lack a number of mechanisms of influence over independent energy companies because of corruption and a lack of discipline. There is a lack of coherence in planning. Moreover, there is significant competition within the energy sector between companies themselves—and between the state monopolies and the state—and within elements of the state. If there is increasing state control in the energy sector, there is also increasing competition between the main vehicles for this control: Gazprom and Rosneft. The competition between the two monopolies was illustrated both by the struggle over the assets of Yukos (Yuganskneftegas) and by the failed attempt to merge them in 2004. It is also possible that competition will increase in the run up to the parliamentary and presidential elections (scheduled for 2007 and 2008, respectively), since the leadership of both represent different political influences within the Kremlin—Dmitri Medvedev (Gazprom) representing the so-called ‘liberals’ and Igor Sechin (Rosneft) representing the so-called ‘siloviki’ group. There has also been an element of competition between Gazprom and the electricity monopoly RAO UES: Gazprom seeks to reduce its supplies to RAO UES, arguing that instead of gas, RAO UES should use more coal and fuel oil in power generation to allow a greater portion of the gas to be exported to more profitable foreign markets. RAO UES argues that fuel oil is too expensive and coal is both expensive and practically much more problematic than gas and will therefore result in increased electricity costs for the domestic market. The grooming of a third national resource champion, Alrosa, is only likely to increase competition.

Moreover, although Gazprom is usually considered simply to be an arm of the state in its domestic and foreign policy, the situation is more complex. To be sure, Gazprom reflects some of the priorities of the Kremlin in both its domestic and foreign policy. However, although it commands a high profile, a Gazprom strategy does not equal a Russian energy strategy, and not just because of the competition noted above. The
Russian state is not monolithic (of which more below), and although powerful interests support Gazprom, others do not. The loosely defined ‘liberals’, represented by Gref, for instance, from 2000 sought to reform the Gazprom monopoly by breaking it into independent entities for the production, distribution and sales. Although such proposals were finally stopped by President Putin in December 2002, the representatives of this group continue to exert influence in Russian energy policy (even if it is not the defining influence), and their political fortunes during the electoral period and beyond will have an important bearing on Gazprom’s monopoly status. Additionally, Gazprom has a number of priorities that in fact conflict with state political interests, including with those elements that support its monopoly status. This has been illustrated during 2006 by the debate over domestic gas prices, the low level of which creates significant pressure on Gazprom, which has sought to increase these prices. The government has, on the other hand, sought to keep gas prices low since raising them creates political difficulties. Furthermore, Gazprom uses its influence over the state to pursue its own interests and as a means of avoiding competition. The clearest illustration is its use of the state legislature to secure its aim of reinforcing and re-emphasising its role as the only channel of foreign sale of gas in 2006.

Gazprom’s strategy of becoming a global energy company and increasing its profits therefore sometimes works with the Russian state, sometimes in parallel to it and sometimes against it (or parts of it). Far from being simply a tool of the state, Gazprom pursues its own interests using the state where necessary, a point that has had significance for Russian energy diplomacy as a whole, particularly in the NIS: there was an important commercial element to Gazprom’s efforts to raise the prices to the NIS, and the subsequent cut offs when negotiations failed to produce the required results. The fallout has been that Gazprom has raised prices to its foreign customers—but at the cost of collapsing the reputation of Russian energy diplomacy more broadly.

Finally, there is a lack of coherence in state planning in the use of Russia’s national resources. This has been reflected in a number of disagreements between ministries over levels of production (whether production should be maximised or restrained to prolong the sustainability of available reserves), the development of plans to increase coal and nuclear energy in the domestic energy mix, the use of the Stabilisation Fund (whether some of it should be invested in energy infrastructure development), and the benefits of, and possibilities for, geographical diversification of markets (of which more in the next section). This lack of coherence has meant that there has been a lack of overall strategic planning for the development of the Russian energy sector in terms of who will achieve what aims, with what resources and in what timeframe. It means that, as Milov (2006b: 14–15) notes, it is ‘hard to believe that Russia will be able to play a coordinated energy game targeted to achieve specific goals in the international arena’. It also means that Russian energy diplomacy is relatively unpredictable and short-termist, and many of the domestic actions such as the attack on Yukos, the attempted merger of Gazprom and Rosneft and the pressure on Shell-led consortium in Sakhalin II were not thought through according to a strategy, but were more driven by instinct (Milov 2006b: 14–15).
External Dynamics of Russian Energy Diplomacy

Russian actions on the international stage have also undermined confidence in Russia as a partner. There have been three main interconnected areas of action: the NIS, which has been the key focus of Russian energy diplomacy; the EU, which is Russia’s main market; and the wider world, particularly the Asia-Pacific region, which has become increasingly important as Russia has sought to diversify its markets and extend its influence. This part of the article looks at these three areas in turn. The key points are that Russian energy diplomacy in all three areas has been marked by a lack of clarity and specific direction. Moreover, developments in the NIS, particularly the Black Sea region, and the wider world have had an important impact negative on Russia’s energy diplomacy with the EU, which has traditionally been its key focus.

Russia’s Relations with the NIS

Russian energy diplomacy in the NIS has been multifaceted, reflecting both the variety of interests in the Russian energy sector and the range of partners in the NIS. Frequently, the dispute with Ukraine in winter 2005–2006 is used to illustrate Russian pressure on the NIS and the use of energy to punish states that attempt to move away from Russian influence. The dispute between Gazprom and Ukraine was a ‘wake up call’ for many outside the region, reflecting both Russia’s strong arm tactics and highlighting its efforts to strengthen its positions in the NIS (Baran 2006: 4). Russian experts, such as Vladimir Milov, President of the Institute of Energy Policy, have pointed to the activities of those such as Anatolii Chubais, who on the one hand are acquiring assets in the NIS and on the other promoting the notion of Russia as a ‘liberal empire’, which should increase its influence by acquiring control over the vital energy organs of the economies of the NIS (Milov 2006e: 13).

Such views of course have had particular resonance in the Black Sea area due to cut offs to Georgia and Ukraine. Georgian officials have repeatedly accused Moscow of engineering explosions in winter 2005–2006 that affected infrastructure on the Russian side of the border and led to a halt in supplies to Georgia in order to create a political crisis there and undermine the government (though many analysts note the scarcity of supporting evidence for such claims—and point also to Georgia’s subsequent failures to provide power to its own population [Fredholm 2006: 6]). They also argue that Gazprom’s intention to double the price of gas is a political decision to further increase pressure on Tbilisi, questioning how the price was calculated. In Ukraine, similar arguments are made about the effort by Gazprom to increase the price of gas to ‘market levels’ (though there is a lack of clarity about what this means) and acquire infrastructure assets. There is concern in Kyiv that this lack of transparency prevents Ukraine from forecasting future changes in gas tariffs.

Similar pressure has been brought to bear on Armenia, where Gazprom has acquired significant assets and blocked deals between Yerevan and Teheran to transit Iranian gas via Armenia, and Azerbaijan, where Gazprom sought to raise gas prices while reducing the amount of gas available to Azerbaijan, partly in an effort to block gas trade with
Georgia and Turkey (which Gazprom itself is trying to cultivate as a partner). Moscow is also accused of exerting a dominating influence over Central Asian states, particularly Turkmenistan, Uzbekistan and Kazakhstan, with Gazprom purchasing supplies for prices well below world levels (Baran 2006: 4). Other Russian companies are also deepening ties with Central Asian states in the oil, gas and hydroelectric sectors, reflecting the broader re-assertion of Russian influence in the region and facilitating attempts to influence the domestic and foreign policies of these states (Brill Olcott 2006: 32).

Certainly, Gazprom has outlined a clear policy of increasing prices to customers and bringing prices in the NIS to levels similar to those of the EU (approximately US$230–235 per thousand cubic metres), adjusted to transit costs. Gazprom also seeks to establish or increase its equity position in both gas companies and transit infrastructure of the customer state. Such a strategy has the hallmarks of a strategy driven by commercial aims. However, as noted above, the line between these aims and political influence is blurred, and there is a tension between Gazprom’s approaches: at times asserting ‘market principles’ as the basis for relations, at others protecting and asserting its monopoly status. Moreover, the lack of clarity about Gazprom’s position and aims is heightened by the perception that the pace of the transition to target price is in large part dictated by the overall state of relations between Russia and the consumer state: essentially that pro-Russian policies are rewarded by continued subsidised gas prices.

As with some of the domestic issues that have served to undermine confidence in Russia, such as the attack on Yukos and the increase of state monopoly influence in the oil and gas sectors, there is an important Russian domestic political angle to consider here. Polls suggest some 80 per cent of the Russian population favoured a raise of the prices of gas to Ukraine to European levels. Yet as one expert has noted, such blurring and the variation in deals between different customers heightens the impression that the political relationship sets the gas price that undermines Gazprom’s reputation both as a reliable supplier and as a commercially driven organisation. Such concerns have evoked a number of reactions from NIS, including the rejection of equity involvement by Gazprom (Azerbaijan and Georgia), and the continued rejection at national political level of Gazprom ownership of infrastructure assets, which Ukraine would consider to be a major potential threat to state security (Oxford Analytica 2007).¹

However, Russian energy diplomacy more broadly is also driven by concerns about protecting its own interests and even a sense of weakness, visible in two ways. First, as Semyon Veinshток, CEO of Transneft, has stated, it is in the strategic national interest of Russia to ‘create export routes that will be completely independent of adjacent countries’ (Trendline Russia 2006). This illustrates the concerns in Moscow that Russia is vulnerable to external pressure, including increased transit fees and competition to establish other transit routes to the markets. This has led to a significant increase in investment and development of gas and oil export routes via Russian territory. Second, Russia has sought to build cooperative relationships in the NIS, in part because of a lack of its own resources. The clearest example of this is the attempt to enhance nuclear cooperation with Kazakhstan and Ukraine. This plan to revive the nuclear energy
complex established during the Soviet Union has widespread support in Russia and support also from the presidents of Kazakhstan and Ukraine. Sergei Kiriyenko, Head of the Russian Federal Atomic Agency, proposes combining organisations and enterprises in the three states under a single ministry. Although Russia has many of the main processing facilities, it has limited uranium resources and depends on Kazakhstan and Uzbekistan for uranium mining and initial processing. Ukraine also mines uranium and zirconium and provides heavy engineering services while being dependent on Russian expertise (Oxford Analytica 2006).

Gazprom also relies on the relationship with Central Asian states, particularly Turkmenistan, to maintain its domestic and foreign supply balance. Indeed these requirements have driven an active policy of cooperation with these states. In large part to cope with increasing domestic consumption and export contracts, Gazprom seeks to increase its consumption of Turkmen gas to 78–80 bcm by 2010, and plans to implement a long-term contract until 2028 were agreed on 15 February 2007. If Gazprom’s cooperation with Turkmenistan was facilitated by the late President Niyazov’s adversarial relationship with Azerbaijan, cooperation was nonetheless also in the face of significant competition, particularly with the United States and China, with whom Turkmenistan had signed contracts to for up to 30 bcm/year from 2009. Moreover, as one expert has noted, although profitable for Gazprom, Turkmenistan is not an easy partner because of the high levels of corruption and the complex nature of the cash and barter agreements reached (Brill Olcott 2006: 35).

Russia’s Relations with the EU

There has been a slow bureaucratic improvement in the EU–Russia energy relationship, epitomised by the enhancement of the EU–Russia Energy Dialogue with the Permanent Partnership Council meetings begun in October 2005. Yet EU–Russia energy relations have been marked by a fast deterioration in mutual confidence since late 2005. Three main interlinking points stand out with respect to Russian energy diplomacy and the EU. First, Russia has sought to develop bilateral relations with individual EU Member States as a means of increasing its influence in the EU more broadly. Bilateral agreements have therefore been sought with Germany, France and Italy among others. Second, Russia has attempted to maintain its image as a reliable supplier to the EU and indeed enhance its position as the EU’s main gas supplier through seeking long-term contracts and improving infrastructure links with it, such as the Baltic Sea pipeline. This pipeline, viewed as a threat by the EU’s new Member States, reflects the ‘top priority’ being afforded to the European market, particularly Germany and the United Kingdom, according to Alexandr Medvedev (2005: 34), and creates a ‘qualitatively new stage in cooperation with European gas customers’, since it will be the first gas pipeline capable of making direct deliveries of Russian gas to Europe, thereby creating the possibility of greatly increasing Gazprom’s economic and political foothold in Europe. Thus, despite the widely publicised concerns that Gazprom was ‘threatening’ supplies to the EU by seeking to develop other markets, senior Russian figures, including President Putin and Alexei Miller, CEO of Gazprom, have repeatedly
A. Monaghan acknowledged the importance of the EU market and reiterated their commitment to meeting contractual obligations.

 Nonetheless, third, within a broadly cooperative framework, Russia has sought to protect its own interests, particularly what it sees as its natural competitive advantages, and Russian energy diplomacy with regard to the EU is tinged with defensiveness. This defensiveness has been reflected in attempts to secure access to European downstream assets as ‘reciprocity’ for European access to upstream Russian assets and repeated rejections of EU proposals to liberalise the Russian energy sector by breaking up the Gazprom monopoly and ratifying the Energy Charter Treaty (ECT) and its Transit Protocol. Alexandr Medvedev (2006: 146, 149) has argued that the liberalisation of the European gas market ‘creates risks for producers and exporters of natural gas and obliges them to think twice before deciding to invest in new projects’. Moreover, Russia’s energy security also depends on a mutually beneficial partnership. Khristenko has also stated that Russia has invested billions of Euros in the extraction and delivery of gas to the European market, and that the uncertainty over the conditions of gas transport poses a significant risk.

 There is considerable Russian opposition to the ratification of the ECT and transit protocol for several reasons. Commentators such as Mikhail Delyagin (2006) have argued that the EU’s ‘perseverance in attempting to deprive Russia of its natural competitive advantage is reminiscent of the aspiration by the most rabid revolutionaries of the early 20th Century to nationalise women’. Less vividly, others have argued that it no longer matches reality: it originated as a document ensuring energy stability involving a number of states in economic and political transition that had yet to identify their strategic direction, whereas it now involves current and perspective EU members, on the one side, and Russia, on the other. Moreover, it is considered to be an unequal document for Russia since the transit protocol is not applicable to EU Member States, which are bound only by equal or more favourable EU internal regulations (Milov 2006b: 20). Similar positions have been adopted by senior Russian officials, including Khristenko and Sergei Yastrazhembsky, Presidential Aide for Relations with the EU, who stated that some of the document’s wording was discriminatory towards Russia. Vladimir Chizhov, Russia’s Ambassador to the European Communities, has stated that it clearly brings little benefit, not least since the dispute settling mechanisms were not used during the dispute between Ukraine and Russia in 2005–2006. President Putin has himself rejected the ECT and transit protocol, noting at the Valdai conference that it is a ‘political slogan’ and would benefit only those who owned different sections of the pipeline network—the profits would therefore shift away from the producer and Russia would have no control over the energy as it passed through Russian territory. Russia seems unlikely to ratify the ECT and transit protocol any time soon.

 Russia’s Relations with the Wider World

 Russian energy diplomacy has become increasingly active farther afield, with Russian companies investing in a range of projects to diversify towards the Asia-Pacific region
and develop partnerships with other producer states. Russia is participating in projects to develop pipeline infrastructure such as the India–Pakistan–Iran pipeline. It is also developing nuclear energy cooperation with India: two nuclear reactors are being constructed in India, and an agreement to build four more nuclear plants was reached in January 2006. India is also involved in developing the Sakhalin I project in Russia.

Agreements have been reached to enhance cooperation with China also. Rosneft and the China National Petroleum Corporation signed a protocol in 2006 on establishing a new joint venture: Vostok Energy. Oil exports to China have grown of late and plans exist to increase these exports to meet the potentially huge Chinese market from the current 3 per cent of Russian exports being delivered to the Asia-Pacific market to 30 per cent by 2020. Gazprom has also sought to develop a relationship with China, and has established a US$11 billion project to build two gas pipelines to supply China with 80 bcm of natural gas per year beginning in 2011. Partnership with China also opens up the potentially lucrative South Korean market to Gazprom.

Yet plans to diversify to the East in Russia are as confused (e.g., whether to focus on China or Japan) as they are problematic. Some Russian experts argue that Russia must diversify towards the East, since by tying itself to partnership with Europe, it ties itself to a partner with very low growth rates. Its energy engagement with Europe also does not open up European markets to other Russian goods. The consequence will be that Russian growth is also limited, argue those such as Mikhail Dmitriev (2006), President of the Centre for Strategic Research. Others argue that Russia should use the potential for re-orientation of its energy supplies to more cooperative clients, including China, as a bargaining chip with Western consumers (Delyagin 2006). Still others argue that China is not an optimum market for Russia not least because it pays less for hydrocarbons than the EU. Moreover, if Chinese dominance of Russia’s eastern exports is politically difficult to palate in Moscow because of the added influence it would give to China politically and economically, it is also questionable in terms of sustainability since Chinese gas consumption fluctuates and may fall as it seeks to reduce its own dependence on imported energy by increasing use of its large domestic coal reserves (Milov 2006d). Furthermore, without the infrastructural development of new oil and gas fields in Eastern Siberia, it is unclear whether Russia will be able to meet its contractual obligations to supply its new markets.

The development of relations with other producers has been equally problematic conceptually. Gazprom is developing a relationship with Algeria, reflected in a memorandum of understanding signed between it and Sonatrach to work together to develop Liquified Natural Gas (LNG) and consider joint bids for foreign assets. However, beyond this, the approach to the establishment of a ‘gas cartel’ has again reflected a lack of coherence in the Russian strategic view. President Putin has responded to Iran’s proposal to establish a cartel by stating that it was ‘interesting’. Other senior Russian figures, including Khristenko and Gref, have been quick to dismiss the idea, indicating the lack of a strategic approach.
Conclusions

Russian energy diplomacy is becoming increasingly active as the Russian government and Russian companies are seeking to alter the basis of existing relationships and develop new relationships on the basis of protecting relatively vaguely defined Russian national interests. This has had important ramifications for the Black Sea region states, which have seen increased opportunities for cooperation with Russia go hand in hand with increased prices for Russian gas and demands for access to key infrastructure assets—and the cut off of gas to Ukraine and Georgia.

However, by one measure, this increasingly active Russian energy diplomacy is demonstrably failing. The stated aim to be considered a reliable energy supplier has dramatically failed during the last two years, not least as a result of many of the actions the Russian government has taken to try to enhance Russia’s energy security such as increasing state control and reducing Russia’s dependence on foreign transit routes—moves considered to undermine the investment atmosphere in Russia and threaten supplies to neighbouring states, respectively. Russia’s disagreements with Ukraine in 2006 and Belarus in 2007, though having limited practical impact on the export of supplies, have seriously undermined confidence in Russia in the NIS, the EU and in the United States. Perhaps the clearest admission of this on the Russian side is Gazprom’s decision to hire public relations consultants to improve its image in the West and President Putin’s recent attempt to move away from the terminology of Russia as an ‘energy superpower’, arguing that its use was counter productive: it was being used to revive echoes of the Cold War and the ‘evil USSR’ (Valdai Discussion Club 2006).

It has an important political impact, however: falling confidence in Russia’s political reliability, combined with concerns about the country’s ability to meet the EU’s energy needs, has led the EU to begin a search for alternative energy types, suppliers and transit routes. As one high-profile publication has put it, the Kremlin, ‘with its pipeline shut-offs and bellicose stance, has done more to advance the cause of alternative energy in the past year or so than any green activist could manage in a lifetime’ (Financial Times 2007). Furthermore, it seems to be failing in other ways, particularly in terms of creating a stable basis of influence in the former Soviet space. Indeed, although it appears that Russia has increased its influence throughout the different parts of the region, its long-term position in its ‘near abroad’ has been undermined by its heavy-handed actions. Russia has ensured that Georgia has intensified efforts to move away from Russian influence and stiffened Ukrainian resistance to such influence. Perhaps most illustrative of this process though has been that Russian actions have altered Azerbaijan’s broadly pro-Russian course. Moreover, as noted above, although Russia’s position in Central Asia seems currently strong, it faces increasing competition in the region from other states.

In most Western analysis, the language of Russian energy diplomacy has been one of strength and weakness—predominantly Russia’s strength and the weakness of the consumer states. In fact, in Russian energy diplomacy, strength and weakness go hand in hand. Russia’s energy resource wealth is of course its main strength, which finances other areas of development, including military development, which is an increasing
concern among some of the new EU Member States. Yet there are three interconnected weaknesses that are too often overlooked. First, there has so far been inefficient development of Russia’s resources, to the extent that there seems to be a gas deficit emerging as Russian domestic gas consumption is rising. This puts a significant strain on Gazprom and a potential strain on Russia’s ability to meet its export contracts. Second, this means that the energy ‘superpower’ relies on its partners in Central Asia, particularly Turkmenistan to meet this balance. Finally, Russia’s export infrastructure ties it to Europe—a fortuitous position in some respects, since Europe pays the highest prices for Russian gas of any other market. Though Russia is seeking to develop and diversify its export capacity, for the foreseeable future, it remains tied to, and dependent on, this market—a position that imposes important constraints on Russian energy diplomacy.

Finally, if there is a political idea about using energy resources to re-establish Russia as a ‘Great Power’ in world politics, as in broader Russian foreign policy as a whole, it remains unclear that there is a coherent overall grand strategy to achieve this. Contradictory statements have been matched by incoherent policy implementation. A Gazprom strategy does not necessarily represent a Russian strategy. This point is illustrated by the clashes between Gazprom and other parts of the Russian elite, such as the electricity and oil monopolies and even senior figures in the Russian government over issues such as its monopoly status and domestic gas prices. Moreover, apart from reinstating Russia as a ‘Great Power’ and extending its influence in the NIS, Russia’s national interests remain ill-defined and its specific foreign priorities undecided. The extent to which the Asia-Pacific market will be advantageous to Russia, and even how Russia should develop it, remain unclear, for instance, and Moscow’s approach to agreements about a gas ‘cartel’ with other gas producers is also uncertain, with some clearly supporting the notion and others opposing it.

To be sure, there is a degree of lack of consensus in all strategies. Yet the relative short-termism in strategic horizon espoused by both state and private sectors (as near as 2008–2009) and the high degree of disunity—indeed competition—between interests in Russia suggests that there is no overall grand strategy driving Russia’s energy diplomacy. Despite the official document outlining the energy strategy, approved in 2003, there is no clear indication of who is to achieve which aims, with which resources and in what timeframe. The overall diplomacy behind the political idea of establishing Russia as an energy ‘superpower’ therefore has remained by default opportunistic and fragmented and driven by only certain specific elements within the Russian establishment rather than representing a coherent effort by the Russian state. Importantly, though, it also means that Russian energy diplomacy is more multifaceted than many have allowed, and some sectors of the Russian political and energy establishment have sought to be more cooperative with foreign partners than others—the nuclear sector providing one example.

Notes
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