Eurasian Energy Security Dilemmas:
Russia’s Energy Statecraft and the Contours of the
Great Game Redux

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Renewed Debate

• Re-energized Russia?
  • Energy rich, statist/Realpolitik-inclined bully
    – Russia-Georgia War; Russia-Ukraine Gas Wars
  vs.
  • 21st Century, rule-based, inter-dependent player
    – Trade up-stream-down-stream FDI; IR Energy Accord

• Globalization vs. Resource Nationalism?
Bottom-Line

• Globalization = Power Politics

• Distorts Russia’s Energy Stature

• Overlooks Puzzle of Mixed Success & Inadvertent Escalation

• Neglects Indirect Forms of Statecraft

• Commercial vs. Strategic Competition?
Energy Coercion?

• What Does it Mean?
  – Cooperation & Conflict?
  – How measure success?

• How Know it When See it?
  – Different forms of resource nationalism?
  – Distinguishing commercial vs. strategic objectives?
  – Instrumental vs. inadvertent escalation?
  – Implications of changing landscape?

• Why Russia?
  – Re-energized foreign policy
  – Variety of targets
  – Mixed results
Outline

• Myths Surrounding Russia’s Energy Diplomacy
• Energy Security Dilemmas & Strategy
• Russia’s Strategic Energy Predicament
• Russia’s Mixed Success in Eurasia
• Russia’s Strategic Dilemmas
• Implications
  – Russia’s strategic competitiveness
  – Opportunities for strategic engagement
Common Myths

• Myth 1: Russia = Energy Superpower
  – Reality: Gas superpower vs. oil price-taker
  – Pipeline economics: incremental competition
  – Structural impediments
    • production, investment, export, regulatory

• Myth 2: Energy Dependency on Russia = One-Way Street
  – Reality: Inter-dependence/co-dependence
    • Value to Russia of X > EU of M?
      – Russia= few options at home/abroad vs. EU diversification/scenarios
    • Fixed NIS infrastructure (incremental adv.)
Common Myths

• Myth 3: What’s Good for Gazprom = State
  – Reality: Convergent/divergent interest & choices

• Myth 4: Russia Energy Statecraft = Uniformly Successful
  – >50% relevant cases
  – 10 of 60 cases marked by Russian demands
  – Russia’s global energy doctrine (Y vs. P)?
  – Variation across sector, state & time
  – What’s success (soft, oblique, threat vs. use)?
Energy Security Dilemma

• Energy Trap
  – D>S
  – Energy interdependence > independence
  – Contending conceptions of energy security

• Many Faces of Resource Nationalism
  – Commercial vs. strategic dimensions
  – Direct vs. indirect forms of statecraft

• Strategic Uncertainty & Risk
Energy Security Dilemma

• Variable Intensity of Energy Security Dilemma
  – Double-Edged Nature of Energy Competition

• Defining Factors
  – Resource Power
    • Strategic opportunities/vulnerability
    • Fixed endowment/infrastructure & variable rates
  – Domestic authority (centralization & control)
    • Stakeholders
    • Capacity
    • Intentions/transparency
<table>
<thead>
<tr>
<th>Domestic Authority</th>
<th>Diffuse/opaque</th>
<th>Central/specific</th>
<th>Market Power</th>
<th>Vulnerability</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>State: 2x Dangerous &amp; Strategic &gt; Commercial</td>
<td>State: Less Intense S.D. but misperceptions/ limited escalation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Private: Predatory policies</td>
<td>Private: competition/ coordination possible</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No Security Dilemma/ Offensive/Predation Possible Commercial &gt; Strategic</td>
<td>Stable/ Uncertainty no longer a source of fear</td>
</tr>
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</table>
Strategic Manipulation

• Focus = Target’s Decision-making Situation
  – Manipulate risk/opportunity costs
    • Alter decision base-lines and frames
    • Range of options/opportunity costs of compliance
    • Riskiness > expected utility of options
    • Gap between positive and negative values of options
      – Compliance = safe bet for risk averse target vs. high value outcome for gamblers
  – Criteria
    • Market power
    • Domestic regulatory transparency
  – Efficiency
    • Ex ante
    • Minimize showdowns/credible commitment problems
FIGURE 1.2

Relative Power

A → B

Interdependence

A → B
B → C
C → B

Manipulation

A → C → B
A → D
Russia’s Strategic Predicament

• Russian Gas
  – Market power
  – State/clearly delineated

• Russian Oil
  – Price taker
  – Private/opaque
  – State/opaque?

• “3 Worlds”
# RUSSIA’S PREDICAMENT

## Resource Power

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<td>Russian Gas</td>
<td>Preemptive &gt; reactive</td>
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<td>Russian Oil (&gt;2006)</td>
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- Central/specific
- Diffuse/opaque

- Strategic & commercial predation
- Strategic misperceptions
- Uncontrolled escalation
- Misperception matters less
- JVs, policy coordination
Russian Oil and Natural Gas at a Glance

<table>
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<tbody>
<tr>
<td>Oil reserves</td>
<td>Gas reserves</td>
</tr>
<tr>
<td>90 billion barrels</td>
<td>48 trillion cubic meters</td>
</tr>
<tr>
<td>Oil reserves, as percentage of world</td>
<td>Gas reserves, as percentage of world</td>
</tr>
<tr>
<td>7 percent</td>
<td>25 percent</td>
</tr>
<tr>
<td>Saudi Arabian reserves</td>
<td>Iranian reserves</td>
</tr>
<tr>
<td>264 billion barrels</td>
<td>28 trillion cubic meters</td>
</tr>
<tr>
<td>US reserves</td>
<td>US gas production</td>
</tr>
<tr>
<td>30 billion barrels</td>
<td>612 billion cubic meters</td>
</tr>
<tr>
<td>Oil production</td>
<td>Gas production</td>
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<tr>
<td>10 million barrels per day</td>
<td>612 billion cubic meters</td>
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<tr>
<td>Oil production, as percentage of world</td>
<td>Gas production, as percentage of world</td>
</tr>
<tr>
<td>12 percent</td>
<td>21 percent</td>
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<tr>
<td>7 million barrels per day</td>
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<td>7 million barrels per day</td>
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<td>Oil exports, rank</td>
<td>Gas exports, to Europe</td>
</tr>
<tr>
<td>1</td>
<td>151 billion cubic meters</td>
</tr>
<tr>
<td>Oil exports, in US</td>
<td>Gas exports, to Europe</td>
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<td>370,000 barrels per day</td>
<td>151 billion cubic meters</td>
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Russia’s Gas Diplomacy

• Accentuating Risks for Rival Eurasian Supply
  – Increase downside of X to West
    • Beat to punch in EU: volumes; Nord/South Stream; downstream
    • Turkish angle: Blue Stream II & South Stream (both in play)
    • Woo Azerbaijan residual gas supply/ pit against Nabucco/ tie down
    • Upstream development in Africa & ME (Libya/Nigeria/Algeria, Iran)
  – Increase upside of X to Russia
    • Raise prices (EU level) of Central Asian gas
    • Raise volumes/transit options: Pri-Caspian Pipeline (PCP)
    – Domestic price discrimination
    – T’s gamble on deepening dependence on Russia
    • 25-year deal (90bcm/y) + new development vs. barter/price/ transit monopoly
Russia’s Gas Diplomacy

• Reassuring Kazakhstan
  – Woo incremental demand/emerging Asian markets
  – Improve reliability/certainty and pay-offs of Russian investment, delivery of Kaz. Gas/Central Asian - Center Pipeline/PCP
  – Dependence as “safe bet”
    • KazRosGaz
    • Eurasian Gas Cartel/Russia as K’s gas hub
    • Debt-equity (processing/export)
Russia’s Petro-Diplomacy

• Azerbaijan: “Defying the Odds”
  – Failure to devalue: FDI, alternative pipelines; US/transit state guarantees; risks of national sector delimitation
  – Baku threats to reduce “northern” oil supply
  – Recalcitrant Russian oil lobby
    • Shut-in independents/Transneft opacity (quotas & pricing); regional intervention
    • Chechnya
  – Concerted defiance
    • 4 of 24 JVs (<10% stakes)
    • De facto national sector concession in Caspian
    • BTC

• Kazakhstan: “Cautious Opportunism”
  – Failure to devalue: FDI; multiple pipeline options
  – Transneft recalcitrance (pricing, monopoly rents, delays, discretionary taxes)
  – Quiet defiance
    • Modified median precedent
    • 4 of 43 JVs
    • BTC
Russia’s Strategic Dilemmas

• “Boomerang Effect”
  – Turkmenistan’s growing hubris, 2009-

• Inadvertent Escalation
  – 2009 Russia-Ukraine gas crisis?
    • Contrast with 2006 row
    • Timoshenko-Putin Memorandum 10/08
    • Opportunity & reputational costs

• From Weak Hand to Provocateur?
  – 2008 CPC renegotiation
    – Ownership stakes vs. weak control/ inc. risks
RUSSIA’S TRAJECTORY (2030)

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Russian Oil
Commercial > strategic effect
Reactive > preemptive
Ad hoc
Misperception matters less
JVs, policy coordination
Re-thinking Security Dilemmas

• Markets & Institutions vs. Technology
• Strategic Dyads vs. Structural Condition
• Uncertainty + Risk
• Requirements for Reassurance
  – When does it matter most?
  – How can it be achieved?
  – Cheap talk vs. credible signals
Implications: Competition

• Statecraft
  – Manipulate risks > coercion/inducements
  – Future of Russia’s variable leverage
    • Gas = Short-term strategic weapon
    • Gas = waning asset (future in hands of others EU, PRC, US, Turkey)?
    • Reassurance?
      – Domestic liberalization (domestic production/pipeline access) > regional predation
    • Oil = weak commercial & strategic lever
    • Oil = re-statization < regulatory transparency (Russia’s competitive advantage)
      – Relax taxes (mineral resource, value-added, custom duties; admin reform, tax breaks for exploration

• Flashpoints
  • Turkmenistan’s gas future
  • Nabucco vs. Nord/South Stream/Turkish gas hub
  • Relaxation domestic gas price controls
  • Kazakh support for BTC not= TCP
  • Supply-NIS consumer relations (Belarus/Ukraine)
  • EU Energy Strategy (diversification/transit vs. intra-EU divisions over long-term contracting)
Implications: Engagement

• Oil
  – Let the market in!
  – Diversification in integrated market > Western pipeline fixation
  – Engage but no need offer concessionary terms
  – Address “intermediary” issues (build on Czech case)
  – Encourage Russia as complementary E-W hub
    • domestic transparency/face market

• Gas
  – Damage limitation (EU liberalization/integration)
  – Asia = deliberate expansion
  – Europe = Russia as partner in Nabucco?
  – NIS suppliers: opportunists (Kz, Az) > gamblers (T)
  – NIS customers/transit: joint gas storage/infrastructure
  – IR firms as service providers > ownership in Russia?
  – LNG/Unconventional gas (globally and within Russia)