A large pipeline stretching across a vast, flat landscape under a cloudy sky. The pipeline is supported by wooden posts and runs diagonally from the bottom left towards the top right. The background shows a flat, open plain with some small structures and a distant horizon line.

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

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Renewed Debate

A large industrial pipeline, likely for oil or gas, runs horizontally across the middle of the frame. The pipeline is supported by a series of dark, vertical posts. The landscape is a vast, flat, open plain with a light-colored ground surface, possibly gravel or sand. In the background, there are low, rolling hills or mountains under a sky with scattered white clouds. The overall scene is desolate and industrial.

- 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

A photograph of a long pipeline stretching across a vast, flat landscape under a cloudy sky. The pipeline is supported by wooden posts and runs diagonally from the bottom left towards the top right. The background shows a flat horizon under a bright, overcast sky.

- 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?

A photograph of a long pipeline stretching across a vast, flat landscape under a cloudy sky. The pipeline is supported by wooden posts and runs from the foreground into the distance, curving slightly to the right. The terrain is flat and appears to be a field or plain. The sky is overcast with grey clouds.

- 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

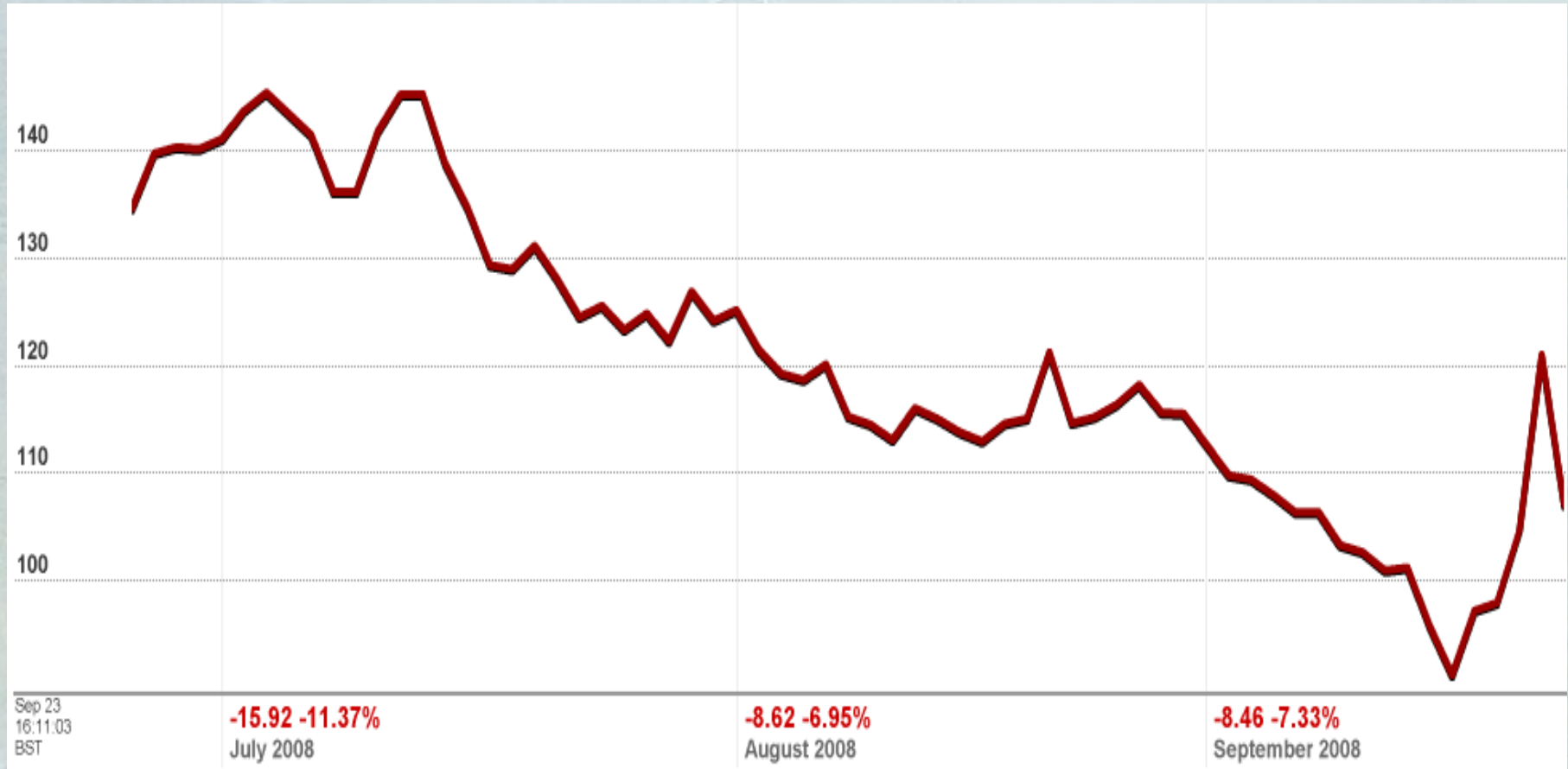
Common Myths

- 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)?

WTI 1 Month Futures 3 Month Lag



Source: Financial Times

www.ft.com

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

Resource Power

Market Power

Vulnerability

Domestic Authority

Central/specific

Diffuse/opaque

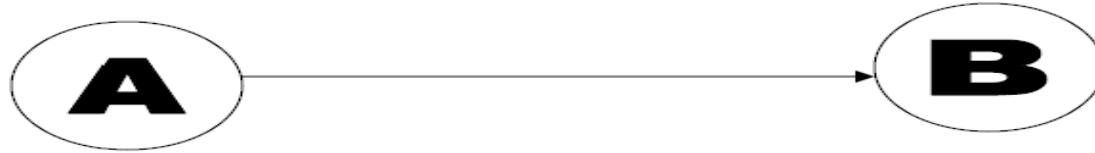
<p>State: 2x Dangerous & Strategic > Commercial</p> <p>Private: Predatory policies</p>	<p>State: Less Intense S.D. but misperceptions/ limited escalation</p> <p>Private: competition/ coordination possible</p>
<p>No Security Dilemma/ Offensive/Predation Possible Commercial > Strategic</p>	<p>Stable/ Uncertainty no longer a source of fear</p>

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

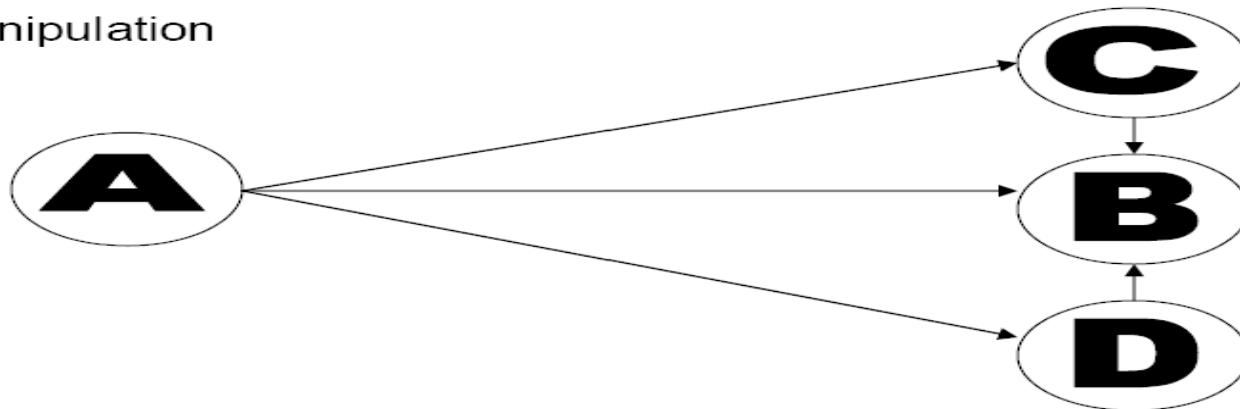
Relative Power



Interdependence



Manipulation



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

Market Power

Vulnerability

Domestic Authority

Central/specific

Diffuse/opaque

Russian Gas

Strategic & commercial predation
Preemptive > reactive
Strategic misperceptions
Uncontrolled escalation

Russian Oil (>2006)

Commercial > strategic effect
Reactive > preemptive
Ad hoc
Misperception matters
Limited escalation

Russian Oil (<2006)

Commercial > strategic effect
Reactive > preemptive
Ad hoc
Misperception matters less
JVs, policy coordination

Russian Oil and Natural Gas at a Glance

Oil		Natural Gas	
	2006		2006
Oil reserves	80 billion barrels	Gas reserves	48 trillion cubic meters
Oil reserves, as percentage of world	7 percent	Gas reserves, as percentage of world	26 percent
Saudi Arabian reserves	264 billion barrels	Iranian reserves	28 trillion cubic meters
US reserves	30 billion barrels	US reserves	6 trillion cubic meters
Oil production	10 million barrels per day	Gas production	612 billion cubic meters
Oil production, as percentage of world	12 percent	Gas production, as percentage of world	21 percent
US oil production	7 million barrels per day	US gas production	524 billion cubic meters
Oil exports	7 million barrels per day	Gas exports	263 billion cubic meters
Oil exporter, rank	2	Gas exporter, rank	1
Oil exports, to US	370,000 barrels per day	Gas exports, to Europe	151 billion cubic meters



	Producing region
	Prospective region
	Oil pipeline
	Gas pipeline
	Oil pipeline under construction
	Gas pipeline under construction
	Proposed/planned oil pipeline
	Proposed/planned gas pipeline
	Proposed LNG export terminal

Sources: Industry reporting.

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

A large gas pipeline stretching across a vast, flat landscape under a cloudy sky. The pipeline is supported by wooden posts and runs parallel to a road. The background shows rolling hills and a bright sky with scattered clouds.

- 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

A large industrial pipeline, likely for oil or gas, stretches across a vast, flat landscape under a cloudy sky. The pipeline is supported by a series of metal pillars and runs parallel to a road or another pipeline in the distance. The overall scene is desolate and industrial.

- “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)

Resource Power

Market Power

Vulnerability

Domestic Authority

Central/specific

Diffuse/opaque

<p>Russian Gas (→) Strategic & commercial predation Preemptive > reactive Strategic misperceptions Uncontrolled escalation</p>	<p>Russian Gas & Oil Commercial > strategic effect Reactive > preemptive Ad hoc Misperception matters Limited escalation</p>
	<p>^ Russian Oil Commercial > strategic effect Reactive > preemptive Ad hoc Misperception matters less JVs, policy coordination</p>

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)