

# Demystifying the Russian Energy Strategy: Policy Constraints and their Meaning for European Energy Security



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# Defining Energy Dependency

- Approach is an answer to geo-political treatments of energy security;
- Applies social structuration theory to energy policy formation;
- Energy policy is a result of strategic actor agency influenced by 4 factors;
- Factors are constraining(-) or enabling(+);
- Correlation is negative.

# Practical Applications

- Hypothesis generating case studies;
- Actor agency in domestic Russian Energy Policy; and
- External Influence: the EU & Northeast Asia

# Case I: Russia & the EU

**Physical:** Maturing West Siberian fields; ageing pipeline and other infrastructure; high costs for developing new smaller fields and transportation in difficult climatic conditions in the extreme north; high dependence on transit states;

**Financial:** High costs of new fields development; ill developed financial sector in the country, could lead to high dependence on international financial consortia; somewhat unclear investment climate for attracting FDI;

**Informational:** Lack of domestic know-how on exploiting the new fields; lack of clarity regarding relevant negotiation partners (EU Commission and individual member states); lack of access to all information regarding concerns and developments within the EU;

**Institutional:** Market conditions and competition laws in Europe to an extent preventing monopolistic behaviour; pressures for joining multilateral frameworks like the ECT that are not fully suited to the perceived Russian conditions.

# Case II Russia & Northeast Asia

**Physical:** Unique geological conditions; Lack of pipeline and other basic infrastructure; difficult climatic conditions in Eastern Siberia, Yakutia, and Sakhalin;

**Financial:** High costs of new field development due to geological & climactic conditions; ill developed financial sector in the country, could lead to high dependence on international financial consortia; somewhat unclear investment climate for attracting FDI;

**Informational:** Compatibility of domestic know-how with demands encountered in exploiting the new fields; quality information as commodity; high variation of information concerning optimal regional energy development strategy; access to information & level of communication amongst relevant actors;

**Institutional:** Unpredictable legal and institutional environment could lead to energy supplies being dealt with on a bi-lateral as opposed to a multi-lateral regional basis. Existing institution free environment allows for creativity in determining future institutional regimes.

# Causes for Concern

## **Products of Actor Agency :**

- Monopolistic economic logic intertwined with a traditional geopolitical approach in both up & downstream projects;
- Unresolved legal issues regarding the control over resources between federal & regional authorities; and
- IOCs and state backed energy companies share a partial, but not common ideological basis for energy sector development projects.

# Domestic Discrepancies: Grozneftegaz

- Resurrected Chechen Oil Company (2000);
- Majority owned by Rosneft 51%; minority interest Chechen Republican govt.;
- Production figures: 750t tonnes (2001) to 2.2m tonnes (2005) with 150t tonnes stolen (2003);
- Extraction licensing unclear (2000);
- Profit row with Rosneft earnings (2006) at 17b RR: transfer to Chechen budget 30m RR; and
- Equality of transfers results in ownership and responsibility issues between Moscow & Grozny.

# External Compatibility Issues: Beltransgaz

- Cheap Gas & Asset Swap (April 2002);
- Swap of BelTransGaz giving Gazprom 50% Ownership (BelTopGaz's 6000 km of Domestic Pipeline Network & Northern Lights Gas Pipeline);
- Russian Domestic Rates for Belarusian Consumers to 2007;
- Agreement coincided with Union State Negotiations (Terms favourable to Russia & Putin);
- Lukashenka reacts (BelTransGaz is not privatised);
- Gazprom retaliates; does not fulfil contract 10.2bcm/18.5bcm; and
- Crisis averted; BelTransGaz swap to go ahead; gas prices raised to 40USD/mcm in 2002.

# Russia's Economic Development and the Energy Sector

- Fuel & Energy Complex crucial in social-economic development (national champion);
- Two discernable, irreconcilable resource dependent strategies: NREM & HTIM;
- A third way: Putin links natural resources to value added high tech economic development; and
- Price dependency, nature of institutions, with actor strategic preferences & resulting agency are major vulnerabilities in all models.

# Conclusions: Ramifications for Europe

- Underdeveloped domestic institutions produce significant knock on policy effects at the federal level;
- The above institutional environment has produced economically motivated, mutually exclusive, sum zero strategic approaches with transit states and end markets; and
- Monopolistic energy sector development is at odds with EU liberalisation programme, causing concern in terms of competition, security of supply and sustainability.