

Energy Analyses

PECOB'S ENERGY POLICY STUDIES

ELEMENTS OF NATIONALISM IN RUSSIAN ENERGY POLICY

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I. INTRODUCTION

Shifts in Russian foreign policy have been a constant feature in Russia's history. Differences between a more Euro-centric or *zapadniki* stance typical of the Petrin period, and a more assertive and reactionary one such as that of Nicholas II testify to the fact that these changes date back to pre-Soviet history. Even during Soviet times major shifts in foreign policy occurred, ranging from the revolutionary spirit of the 1920's to the "national interest" policies of Stalin's years. This latter period differed markedly from the others, however, as the strength of ideology was a driving force which directly or indirectly shaped the foreign policy of USSR.

In regard to nationalism, a time line could be drafted to represent the curves of its intensity in the history of Russia as a supranational entity. Marxism-Leninism, albeit officially a state ideology, did not necessarily mean giving up nationalism. What I will argue in this paper is that this heritage has come to the surface in Russia's current foreign policy, and that its strength is reflected in one of its key branches, energy policy.

II. FRAMEWORK OF ANALYSIS

This article focuses on the most recent period of Russia's energy policy and debate for three main reasons. The first one is time constraints. Further historical considerations would take too much time, as interesting as they may be. The second reason is for the current relevance of this historical period. Digging too much into Russia' foreign policy would turn this paper into an historical essay. Finally, as already mentioned, Soviet times were characterized by a pervasive ideology, although this was sometimes used as a *façade* to explain foreign policy decisions.

In contrast, Marxism Leninism played almost no role in the post-1991 period. Thus the time line will start from the end of the Soviet experience, with references to the Yeltsin period, and proceed through Putin's administration until the present. My conception of nationalism has a pragmatic feature. The pursuit of national interest is conceived of not as a struggle for power maximization on the basis of "Common sense and moral determination in peace"¹, but rather as the quest for better political and economic conditions for one's country.

Interest formulation depends heavily on the cultural and economic background in which foreign policies takes shape.² Thus, in 21st century Russia, characterized by the strong influence of nationalist rhetoric, *grandeur* nostalgia³ and progressive economic growth, such a pursuit is based on restoring past international influence. Avoiding moral connotations and focusing on nationalism as a pattern for self-preservation allows me to consider what national interest requires a state to do.⁴ This question takes me straight to Putin's foreign policy design:

In an internal document outlining the Kremlin's foreign policy guidelines (a document Putin personally approved) , it was stated that as far as Russian foreign policy was concerned, "The topmost priority [...] is protection of the national interests of the [...] State".⁵ But what is most important for the purposes

¹ Hans J. Morgenthau, *InDefense of the National Interest*, University Press of America, 1982

² Hans J. Morgenthau, *Politics among Nations*, McGraw Hill, New York, 1985

³ *Angus Reid Public Opinion*, "Russians Regret Collapse of Soviet Union", January 1, 2006

⁴ Kenneth Waltz, *Theory of International Relations*, Addison, Wesley, 1979

⁵ Russian Ministry of Foreign Affairs, "Foreign Policy Conception of the Russian Federation", *Ministerstvo Inostrannikh Otnosheniyakh*, June 28, 2000

of this paper is that according to this document, "Russia must be prepared to utilize all available economic levers and resources to uphold its national interest."⁶ This lever has turned out to be energy, and this is not surprising since Russia currently controls the biggest natural gas reserve on the planet, has the second best reserves/production ratio (after the United States) and is a considerable oil producer.⁷

This has led Vladimir Putin to consider a complete re-organization of the energy industry under tight state control, promoting enterprises such as Rosneft or Gazprom to the top of Russia's foreign policy agenda. In so doing, Putin found the best way to channel Russia's international aspirations, and has obtained remarkable results. Indeed, energy revenues allowed Russia to repay its foreign debt to the Paris Club in 2006, a debt it had contracted in the Yeltsin years.⁸ This is why I have chosen to focus on energy as a vehicle for nationalism, precisely because Russia's two energy giants have become major players in the formulation of Russia's foreign policy.

As far as gas and oil are concerned, it seems rather difficult to separate the interests of Gazprom/Rosneft from those of Russia. Defining Russian energy policy in these terms allows me to argue how its formulation is not always based on market principles but rather on national interest, whether the two coincide or not. Any energy company willing to invest in Russia should bear in mind the powerful effects of this factor. As we will see in the following chapter, several western oil enterprises, attracted by rich Russian soil, made the mistake of downplaying this cultural background. In some cases, the consequences of this attitude led to losses of several billion dollars in investments and business exclusion.

⁶ *ibid.*

⁷ *Energy Delta Institute*, "Country Profile: Russia", Groningen, Netherlands, 2010 [Dataset provided by BP Statistical Review of World Energy]

⁸ *The New York Times*, "Oil Income Helps Russia pay of entire debt to Paris Club", June 21, 2006

III. FOREIGN POLICY ANALYSIS: GENESIS OF ENERGY POWER POLITICS

Putin's academic career was marked by the publication of a paper, destined to be the guidelines for the policies he would implement as president of the Russian Federation. His PhD dissertation, defended in 1999 at St. Petersburg State University, dealt with the conditions of Russia's economy, emphasizing the role of the oil and gas sectors. According to him: "The main reserve for transforming Russia [...] into a leading economic power is [...] the development of national processing industries based upon the extraction industry".⁹ His conclusion holds particular significance: "[...] the strategy for Russia to emerge from its deep crisis and attain its previous might [...] shows that the condition of the mineral and raw materials complex will remain the most important factor in the development of the country [...]"¹⁰.

Even before becoming president of the Russian Federation, Putin had a clear design for the pattern of development Russia should pursue in order to restore its status. The question is which part of Russia's history led him to consider the need for his country to elevate its international weight. This leads me to the debate which occurred in the 1990's, a period he spent working for Anatoliy Sobchak, mayor of St Petersburg.

After the end of the Soviet experience in 1991, economic turmoil stormed an already weakened country, culminating in the financial breakdown of 1998. In these years, Russia's international importance decreased along with its economy, and several major international events increased Russian nationalist frustration, such as NATO's eastern expansion in the first part of the 1990's¹¹ and increasing western sympathies in Ukraine and Georgia. The ethnic composition of the region also changed slightly, especially if we consider that in the USSR Russians represented more or less 50% of the population. In the newborn federation this proportion rose to 80%.¹²

⁹ Vladimir Putin, "Mineral and Raw Material Resources and the Development Strategy of Russian Economy", Saint Peterburg State University, 1999

¹⁰ *ibid.*

¹¹ Leonid Ionin, "Russia and NATO: Problem of NATO Expansion to the East in Russian Politics and Public Opinion", Moscow, 1997

¹² Robert H. Donaldson, Joseph L. Noguee, *The Foreign Policy of Russia: Changing System Enduring Interests*, M. E. Sharpe, New York, 2009

The resulting crisis of Russia's self-identity led intellectuals to confront each other in a stimulating debate over which national interest the country should pursue in order to modernize itself and achieve its status in a new international system. Helping "Russia become Russia" was the core issue.¹³ On the one hand we had Kozyrev's office, whose main directives (in line with the new thinking) wished for broader Russian involvement in major international institutions. In the first part of the 90's this position, with various ups and downs, was backed by Yeltsin. According to them, modernization and stability had to be achieved through a complete *rapprochement* with the West.

This "Atlanticist" perspective was soon to be criticized on the grounds that it was being translated into a certain degree of proneness towards Western powers. Opponents like Sergei Stankevich, a Yeltsin adviser, put forth a more "Euroasianist" stance based on the pragmatic defense of national interest. His vision of Russia as a bridge between Western and Eastern civilizations was coupled with the need for a tougher stance, necessary to defend the Russian population as well as Russia's international role.¹⁴ Migranian's Monroe Doctrine of Russian privileged interests was deeply encoded in this logic.

The debate between the Atlanticists and the Euroasianists continued until 1993 when the elections were marked by Vladimir Zhirinovskii's parliamentary success. This event changed the rules of discussion, shifting it toward a rejection of Westernism and a willingness to build up the Russian empire once again. Nationalism and Panslavism returned to the core of the political scene. This strong opposition later led Yeltsin to embrace Eurasianist ideas, enunciated in the 1993 Foreign Policy Concept.¹⁵ When Kozyrev was replaced by Evgenii Primakov in 1996, this tougher stance was confirmed. Not only did he state that the Cold War had no losers but only winners, but he also formulated what later became known as "Russian permanent interest".¹⁶ This is the ideological background in which Putin started his public career, and as soon as he reached power, he oriented his foreign policy according to these principles.

¹³ Sergei Stankevich, "A Power in Search of Itself", *Nezavisimaya Gazeta*, March 28, 1992

¹⁴ *ibid.*

¹⁵ Kyogi Komachi, "Concept-Building in Russian Diplomacy: The Struggle for Identity from 'Economization' to 'Eurasianization'", Working Paper 94-03, *Weatherhead Center for International Affairs*, Harvard University, 1994

¹⁶ Evgenii M. Primakov, *A World Challenged*, Brookings Institution Press, Washington DC, 2004

IV. TRACKING NATIONALISM IN 21ST CENTURY RUSSIAN ENERGY POLICY

Russian nationalism has strong roots in several aspects of Russian energy policy. As defined in the first paragraph, this element is reflected in all phases of energy production, from its extraction to its destination. It thus seems logical to start by considering a few examples of how nationalism has played a major role in those areas where oil and gas are extracted, be they inside or outside Russian territory.

The first case is that of the giant Kovykta gas field in Siberia, where British Petroleum received a concession for extraction in 2003 after setting up a joint venture with TNK (Tyumen National Company). Since this is considered one of the biggest gas fields in the world, currently providing around 20% of Chinese and South Korean demand¹⁷, the Russian authorities decided that such a crucial source of income should be directly controlled by Russian firms.

As soon as gas extraction began, Gazprom (the infrastructure monopolist in the region) refused to let the consortium use its pipelines.¹⁸ After being threatened with the loss of its shares in the field, BP decided to sell 63% of its stakes to Gazprom.¹⁹ After several years of negotiations the British company was completely pushed out of Kovykta in early 2011. Gazprom acquired the whole consortium, including extraction rights.²⁰

The BP case was not isolated; the Shell project on Sakhalin Island, and Total in the Nenets autonomous district had similar experiences. All these events are linked by a time line. These companies were allowed to invest when the price of oil was relatively low, between 2001 and 2003. After just 3 years it had almost doubled (along with that of gas, since the two are linked).²¹

Consortiums like TNK-BP entailed a shared division of profits on a 50/50 basis, and this was clearly not enough for Russian shareholders and officials. More profits for Gazprom translate directly into an increase in Russia's GDP, since according to estimate by Alexei Kudrin (the then-Russian Minister of Finance) oil

¹⁷ *TNK-BP*, "The Kovykta Project", June 29, 2007

¹⁸ *The Economist*, "BP and Russia: Russian Arm Twisting", June 22, 2007

¹⁹ *The Economist*, "Business in Russia: Crude Tactics", June 5, 2008

²⁰ Catherine Belton, "Gazprom pays \$770m for TNK-BP gas field", *The Financial Times*, March 1, 2011

²¹ Paul Stevens, "Oil Prices: Crude Awakening", *BP Magazine*, Issue 3, 2008

and gas account for 17% of Russian GDP.²² Less conservative figures show even stronger correlations.

Another example of Russia's pursuit of national interest in areas of extraction concerns its overall Central Asian policy. Here all efforts are focused on preventing any local resources from entering European markets for fear of losing shares. So far this policy has proved to be quite successful, because since the Europeans first started to seek energy diversification from traditional eastern partners after the 1970's oil crisis, the only successful step forward was the completion of the BTC (Baku – Tbilisi - Ceyhan) pipeline in 2005.²³

There are two guiding principles in Russia's energy policy which aims to limit the amount of Caspian resources reaching the old continent: On the one hand, the legal division of the Caspian Sea is kept frozen in order to prevent major involvement of western companies in projects such as the CPC (Caspian Pipeline Consortium) , the main outcome of which would be a considerable flow of energy from the region to Europe²⁴; On the other hand, Russia has committed itself to a list of long term contracts with Kazakhstan and Turkmenistan, accepting a gradual rise in gas prices (although we are still far from the prices paid by Europe) , thus preventing any volume increase in competing pipelines.²⁵

Regarding the final destination of the resources directly or indirectly controlled by Russia, contracts are also influenced by national interest, whether Russia uses them as a tool for profit maximization or a political lever. Both aspects lead to a consideration of the Ukrainian question. An analysis of events since the election of Yushchenko in 2005 provides a better understanding of how nationalism and national interest are expressed in Russian energy policy.

Since the Orange revolution Ukraine has been swinging back and forth between further integration with the EU versus Russia. Yushchenko's arrival to power signaled a period of *rapprochement* with Brussels²⁶, resulting in the cooling of relations with Moscow. Russia started to ask Ukraine to pay market prices for its gas provisions, previously set at almost one third of the level paid by European customers.²⁷ Whether this request was a reaction to more pro-western Ukrainian policies, or the result of Russia's drive toward profit maximization, both perspectives enhance Russia's national interest.

²² *Ria Novosti*, "Hydrocarbon revenues to fall to 13 pct. of Russia's GDP by 2020", December 9, 2010

²³ *The Economist*, "He Who Pays for the Pipelines Calls the Tune", June 16, 2009

²⁴ Bradley O'Neil, Robert C. Hawkins, and Cody L. Zilhaver, "National Security & Caspian Basin Hydrocarbons", *IAEE Energy Forum*, vol. 20, Second Quarter 2011

²⁵ Marshall I. Goldman, *Petrostate*, Oxford University Press, New York, 2010

²⁶ *The Economist*, "The Viktor and Yulia show", June 16, 2005

²⁷ *The Economist*, "Gas Wars", January 8, 2009

Later, two major gas crises occurred in 2006 and 2009, disrupting energy supplies to several European countries.²⁸ Nevertheless, relations between Kiev and Brussels are growing stronger, despite the changing of the guard in the 2010 election of Yanukovitch. Recent talks by Vladimir Putin about building up a "Eurasian" Union make clear the reasons behind Russia's hand twisting in gas disputes.²⁹ Without Ukraine: "such a Union would be worthless". It is interesting to consider that this concept was outlined soon after the arrest of Yulia Tymoshenko, symbolic leader of the Orange revolution.

Ukraine's alternative to entering such a Union would be to sell its infrastructure to Gazprom. Although negotiations are still underway, Russia took one step forward by completing its North Stream project, thus circumventing Ukraine and avoiding any future disputes.³⁰ Now Ukraine's choice between joining the Union along with Belarus and Kazakhstan and selling its assets to Gazprom has a limited impact on Russia's energy policy towards the EU.

²⁸ *The Economist*, "Pipe down", January 08, 2009

²⁹ *The Economist*, "Yulia Tymoshenko's Trials", October 15, 2011

³⁰ *Reuters*, "Russia says Ukraine cannot Break Gas Deal" September 6, 2011

V. PRESENT DAY SITUATION AND FUTURE SCENARIOS

With the price of oil at \$102 per barrel³¹, it is highly unlikely that any major extraction contract will be signed between Russian authorities and non-Russian companies. However, Russian officials should have drawn several lessons from the last decade, and the events that ensued thus far.

First of all, the fall in oil prices witnessed in 2008, which saw the price shrink as low as \$50 a barrel, had severe repercussions for Russia's stock market, GDP and Ruble value³². From an average 3% growth per year since 1995, gross domestic production plummeted to a record low of -10.8% in June 2009.³³ This was a clear indication of how tightly linked national economic performance is to energy prices. Since this sector is historically prone to boom and bust effects, efforts to diversify were undertaken during Medvedev's mandate, albeit with poor results so far.³⁴

Another issue is the participation of foreign capital in Russia's energy sector, currently limited to a few big joint ventures like TNK-BP, with the dynamics described above.

Energy nationalism reinforces high revenues, further limiting all prospects for market liberalization as well as the entry of new players. It is not by chance that one of the unspoken reasons behind Mikhail Khodorkovsky's arrest in 2003 was his willingness to sell Yukos' shares to Exxon Mobil without the Kremlin's consent, just before oil prices started to skyrocket.³⁵ Apart from boosting competition within the country, the increased presence of foreign companies would help to address another major problem in the energy industry, infrastructure

³¹ Price updated on December 05, 2011 from www.oil-price.net

³² Andrew E. Kramer, "Russia Stock Market Fall Is Said to Imperil Oil Boom", *The New York Times*, September 12, 2008

³³ *Trading Economics*, "Russia GDP Annual Growth Rate", available at: TradingEconomics.com (Federal State Service of State Statistic), 2011 (last accessed on November 30, 2011)

³⁴ Andrew E. Kramer, "Russia Takes a Big Step Into Technology", *The New York Times*, May 25, 2010

³⁵ Andrew E. Kramer – Russian Oil Tycoon Sent to Prison Again, Near Finland – *The New York Times* – 20/06/2011

maintenance.³⁶ This factor limits Russia's export potential, and investment in this area is lacking.³⁷

Solving all these riddles requires investment from abroad, but foreign companies are traditionally cautious because of Russia's business environment. Government policies should thus be directed toward administrative simplification, aimed at reducing investment risks. But before this, nationalism should be detached from the economic sector, thus paving the way for its openness.

³⁶ Yitzhak M. Brundy, Jonathan Frankel and Stefani Hoffman - Restructuring post-Communist Russia - Cambridge University Press - 2004

³⁷ *ibid.*

VI. CONCLUSIONS AND FINAL REMARKS

The aim of this paper is to demonstrate how nationalism as a way of promoting national interest is behind Russian energy policy. By first placing the definition of nationalism into a framework and then considering its genesis from an historical perspective, the analysis shows how these elements are reflected in Russia's present foreign policy directives and guidelines. Arguing that national interest is behind one's country foreign policy (after recognizing how hard it is to distinguish from energy policy) may seem rather cynical or simplistic.

Furthermore, topics such as Russian foreign policy in Central Asia or the dispute between Ukraine and Russia are complicated issues, requiring considerations of both parties' interests as well as third parties involved. Nevertheless, what I wanted to emphasize is that no moral judgment should enter into considerations of the fact that nationalism drives Russian foreign policy. This is what the Russian audience wants, or at least seems to be asking for. Other regional hegemonies have, over the course of history, based their policies on this premise.

Russia is pursuing a power policy comparable to that of other resource rich countries, with the difference that its historical record and its potential as a country enable it to raise its voice on the international scene. It will be interesting to see whether in the forthcoming years the composition of Russia's GDP will finally become more diversified, since the past has shown that relying too much on energy as a source of growth weakens national economies in the long run. Russia will sooner or later have to choose between investing in other sectors and keeping its voice loud, or following previous paths and listening to its own voice slowly disappear.

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