ANALYSIS

Russia as a Neighborhood Energy Bully

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Abstract

This article examines whether Russia's extensive energy reserves can make up for the loss of its once formidable military might. Ultimately, interdependence between producers and consumers reduces the utility of energy as a weapon. Corruption and a willingness to pay large sums to achieve political goals, rather than superpower ambitions, define European–Russian energy relations. To the extent that both sides are willing to build expensive pipeline infrastructure for non-commercial purposes, they are both responsible for Russia's bullying behavior. However, the tactics Russia uses against a divided Europe are not likely to work in relation to the more unified and far-sighted China.

Does Russia Possess an Energy Weapon?

Of all the various things that may be said about Vladimir Putin, one is beyond question: The man had impeccable timing. When he moved into the Kremlin, the Russian economy was only just emerging out of the hyper-depression of the Yeltsin era. When he opted to move out, the global financial crisis was just months away from sending markets into a tailspin. During the intervening two terms of his presidency, Russia underwent a radical reconfiguration.

Irrespective of who will be master of the Kremlin after the March 2012 presidential (s)election, Putin has left a mark that is bound to remain for quite some time to come. Out of the political turmoil and economic collapse that marked the 1990s, he pulled out a new Russia, a country not only self-assured that it is back as a global player but also complacent about its ability to forget about painful reform and to live instead off its hydrocarbon wealth.

Two oft-cited statements may serve to illustrate just how profound the transformation was. One was Putin's pronouncement to the Russian Federal Assembly in April 2005 that the "collapse of the Soviet Union was a major geopolitical disaster of the century". While it resonated well with Russian political elites, it was not equally well received by governments and populations in other newly independent former Soviet republics. The other was his distinctly hardline speech to foreign leaders in Munich in February 2007, which made it plain to all that the honeymoon with America, and with the West in general, was over.

As talk about the beginning of a new Cold War began to proliferate, it also became fashionable to refer to Russia as an emerging "energy superpower." Given the prominent role of Russian energy exports, both in turning the economy around and in fuelling a sense of self-assurance that has bordered on arrogance, it was somehow given that warnings about an emerging threat from Russia would focus on the alleged use by the Kremlin of a newfound "energy weapon," to support hegemonic ambitions.

But is this really a correct way of describing what is going on? Does Russia really possess an "energy weapon," and if so, may we assume that Moscow is both ready and able to wield it? The following will argue that matters are not quite as simple as that. Perhaps it is the case that accusations of Russia behaving like a neighborhood energy bully conveniently ignore how outside actors have been complicit in playing this game? And perhaps the real victim of the superpower ambition will turn out to be Russia herself? Let us begin by considering the notion of power as such, where Russia has clearly felt a distinct sense of loss.

Power out of Barrels of Oil?

It used to be said that power comes out of the barrel of a gun. The envisioned transformation of Russia from its former undeniable status as a military superpower into a wannabe energy superpower somehow stands this statement on its head. Looking at the development both of Russia's armed forces and of its military-industrial potential over the past two decades, there can be little doubt that Moscow's prospects for re-emerging in its former role of military might have been seriously degraded, perhaps irretrievably so. May the possession of huge reserves of oil and gas really be construed as a substitute for this loss? Or, is the talk about an emerging Russian energy superpower little more than just that, namely, talk?

The answer will have to depart from the fact that commercial activity is fundamentally different from the projection of military might. Consider the track record of relations between OPEC and the big oil-consuming nations in Europe and North America. While the oil crisis in 1973 was traumatic as such, it was not only the consuming nations that suffered from the OPEC embargo. At stake for the oil producers themselves was the risk of a massive shift towards conservation and the promotion of renewable energy, which would leave OPEC with much oil and little money. The cartel has since rationally sought to maintain a price that provides

good revenue without triggering too much emphasis on a shift away from oil. Viewed from this perspective, may one not reasonably ask who has power over whom?

For all his ebullient rhetoric, Hugo Chavez has been similarly ineffectual in using Venezuela's oil wealth as a means for projecting power against the United States. If he should so desire, he could surely cease selling oil to Houston, and shoulder the extra cost of transporting his black gold elsewhere, but the impact of such a move on the government in Washington would not be impressive. The truth of the matter is that oil is a fungible resource. It is sold on spot markets across the world, and efforts to deny any specific customer access will be in vain.

Looking more specifically at the case of Russia, it is surely true that revenue from oil export has helped restore a sense of economic security and of political prestige, but does this really amount to having power, in any meaningful sense? If the notion is understood as being able to coerce others into doing things they would not otherwise have done, then it is not clear that oil alone will be very helpful.

The case of gas is somewhat different, mainly in the sense that here the supplier is typically linked with the consumer via a pipeline, and bound by long-term contracts (Liquefied natural gas (LNG) constitutes an exception, but not one that as yet is relevant to Russia). At a casual glance, this could be construed as a case of consumers being at the mercy of their suppliers, but even here it is debatable to what extent one may usefully speak of an "energy weapon." As in the case of the OPEC embargo, one must also consider who stands to lose the most should energy flow through the pipeline be shut down. On the latter count, the Kremlin has in recent years been forced to absorb some rather painful lessons.

A Neighborhood Energy Bully?

Accusations against Russia for behaving like a neighborhood bully in the field of energy date back to the very early days of its post-Soviet existence, when shutdowns of energy deliveries became an integral component of relations between Moscow and capitals in the newly independent Baltic Republics. In those early days, it would have been hard indeed for Moscow to deny that there was a link between energy supply and strained political relations.

Subsequently, numerous incidents have followed where conflicts over the pricing of gas have caused supply disruptions. These cases have been less clear-cut. While Gazprom has projected lack of understanding, professing that its only ambition has been to follow Western admonitions to harmonize energy prices, those affected have pointed at a correlation between the nature of relations with the Kremlin and prices charged by Gazprom. Although the pattern is not crystal clear, there has been a strong tendency for countries that are considered as friendly by the Kremlin to have enjoyed lower prices than others. Over time, however, the general trend towards harmonizing gas prices has eroded this argument.

By far the most high-profile case of accusations that Russia is an unreliable source of energy supply has been that of the repeated "gas wars" between Russia and Ukraine. Up until the end of 2005, Gazprom had successfully nurtured an image of itself as an impeccable and highly preferable supplier of gas to Europe. It was, however, hostage to the fact that such exports must transit via Ukraine. A temporary stoppage during the first days of 2006, provoked by a pricing dispute, caused the image of reliability to crack. When the very same was repeated at the outset of 2009, leaving some of the new member states in the European Union freezing in the dead of a very cold winter, it was a public relations disaster.

Exactly who was to be rightly blamed has been impossible to ascertain. The fact, however, that both Moscow and Kyiv seemed quite happy to allow the conflict to drag out for two weeks, while European customers were freezing, would seem to indicate that there were forces at play behind the scenes. If it is indeed the case that much of the blame lies with conflicts relating to the role of shady intermediaries in Russo–Ukrainian gas trade, then the Europeans have not been the victims of Russian superpower ambitions. They have been suffering collateral damage from energy corruption, which is not quite the same thing.

In addition to supply disruptions, Russia has also been accused of building pipelines whose commercial rationality is weak but whose function as bypass options seems all the more obvious. This was the case with the Blue Stream pipeline that was built across the Black Sea in 2005, facilitating exports to Turkey without transiting via Ukraine and Moldova. And, it was the case with the Nord Stream pipeline through the Baltic, which links Vyborg in Russia with Greifswald in Germany, cutting out both the three Baltic Republics and Poland.

Ambitions to build new pipeline capacity for oil have similarly been aimed at securing bypass options. The traditional export route for Russian oil to Europe has been the Druzhba ("Friendship") pipeline that was commissioned in 1964. Ports in Latvia (Ventspils) and in Lithuania (Butinge) have also been used. In 2001, it was decided to create a Baltic Pipeline System that links Western Siberia directly with a Russian port at Primorsk, outside St. Petersburg. A second stage of the same is planned to divert oil from Druzhba from a point at the

Belarusian border to a Russian port at Ust-Luga, again outside St. Petersburg.

It is easy enough to ascribe sinister Russian ambitions to these latter projects. Poland in particular has been vociferous in arguing that whenever Berlin and Moscow join hands it tends to be bad news for Poland. Yet, it should be recognized that the European Union itself has long been scheming to build its own bypass option, Nabucco, which would transport gas from Central Asia to Europe without transiting Russia.

The true core of the problem lies not in Russian superpower ambitions per se, but in the fact that both sides are so determined to assume substantial extra costs in order to build pipelines whose main motivation is political rather than commercial. This can surely only be ascribed to a fundamental flaw in the relationship as such, for which both sides will have to accept their respective shares of the blame.

It Takes Two to Tango

Looking back at developments in Russian energy policy over the past couple of decades, two major lessons emerge. The first is that it takes two to tango. It is certainly true that much of what the Kremlin has been up to in the energy field over the past decade in particular has been hard indeed to explain as in any sense commercially rational. To the extent that this is true, we must conclude that the Kremlin has been willing to pay a price for reaching its non-commercial goals. But just how large has this price been?

It has often been claimed that in relations to the European Union, Russia will not dare to push its hand, for the simple reason that this would cause negative counter-reactions. But is this really true? Is it not rather the case that far too many European politicians have been far too eager to show to their friends and partners in the Kremlin that no matter what there will be no serious consequences?

Consider the long-standing talk about a common EU energy policy, which would be aimed at promoting competition and at "unbundling" pipeline assets from production assets. Noting that actual action taken stands in no correspondence whatsoever to the amount of talk that has surrounded this laudable ambition, one may ask if it is not the absence of European cohesion, much more so than the presence of sinister Russian ambitions, that is at fault. While implementation of a common European energy policy would surely be in the best interest both of European customers and of the Russian economy at large, improving its deplorable energy efficiency, political circles on both sides would stand to lose. Can Russia alone be held responsible for this?

Something similar may be said for those foreign investors that of late have been subjected to some heavy-handed treatment by the Kremlin, mainly but not exclusively in the energy field. Having derived much benefit from opportunities in the early 1990s, when Russia was weak, as the tide turned and as the Kremlin began to play hardball, the foreigners could have adopted a common policy of protesting against the most egregious forms of rights violations. They chose instead to bow their heads and to shut their mouths, hoping for lucrative new deals for themselves. Again one may ask if the outcome been caused by Russian superpower ambitions, or perhaps by foreigners tempting Russians into playing fast and loose with investor rights and with the rule of law more generally.

The second and for Russia more fundamental lesson to be drawn concerns the fact that creating a truly authoritarian system is just as hard as creating one that rests on working democratic institutions. For all his brash posturing, Putin has fallen far short of reintroducing a true "vertical of power." Borders remain open. Capital flight remains an attractive option. The blogosphere is brimming with harsh critique. Corruption is worse than ever, and the ubiquitous bureaucracy remains able to simply ignore directives that it does not like.

Accepting that the combined outcome of Putin's much-vaunted "authoritarian restoration" has been to allow a host of predatory elites to engage in gross self-enrichment, and to sink the regime into a sense of fear of a hostile takeover of its power, one is wont to ask if this really can be construed as the foundation of a superpower in any sense of the word. Is it not rather the case that the biggest loser has been Russia herself? If and when the price of hydrocarbons should take another nosedive, it would be revealed just what a house of cards it is that Putin has built. Simply pretending to be a superpower will not impress adversaries who are ready to play hardball.

The true litmus test of whether there is any serious content in the sinister talk about a Russian energy superpower will rest not in relations between Russia and Europe, but in the mounting needs to deal with China. Here the Kremlin will be faced with a system that is truly authoritarian. It will have to deal with a regime whose thinking is truly long term, and it will have to bargain with a counterpart that has a $2 trillion war chest. Facing up to this challenge, it will no longer be possible to play a game of divide and conquer, and any thought of recruiting Chinese politicians to promote Russian interests may be dismissed out of hand. Beijing will, quite simply, prove to be very different from Brussels.

Viewed against this background, one may reasonably wonder if and why Putin would really want to remain

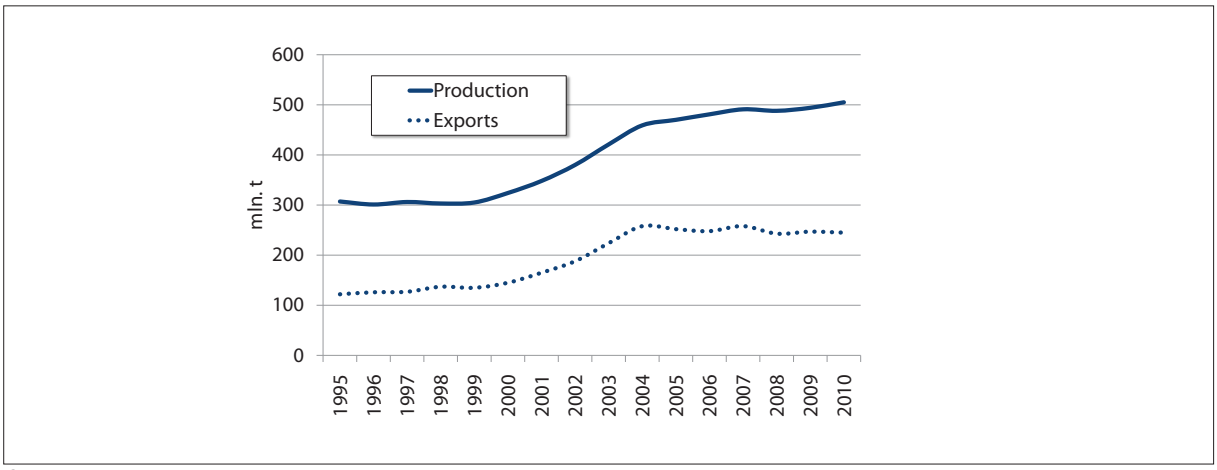
in power. Irrespective of what one chooses to believe about future movements in the price of oil, when push really comes to shove the wannabe energy superpower will surely come up short.

About the Author
Stefan Hedlund is Professor of Soviet and East European Studies at Uppsala University in Sweden. The present text draws on his forthcoming book R*ussia as an Energy Superpower: Empty Threat or Serious Problem?* (Lynne Rienner Publishers, 2012).

STATISTICS

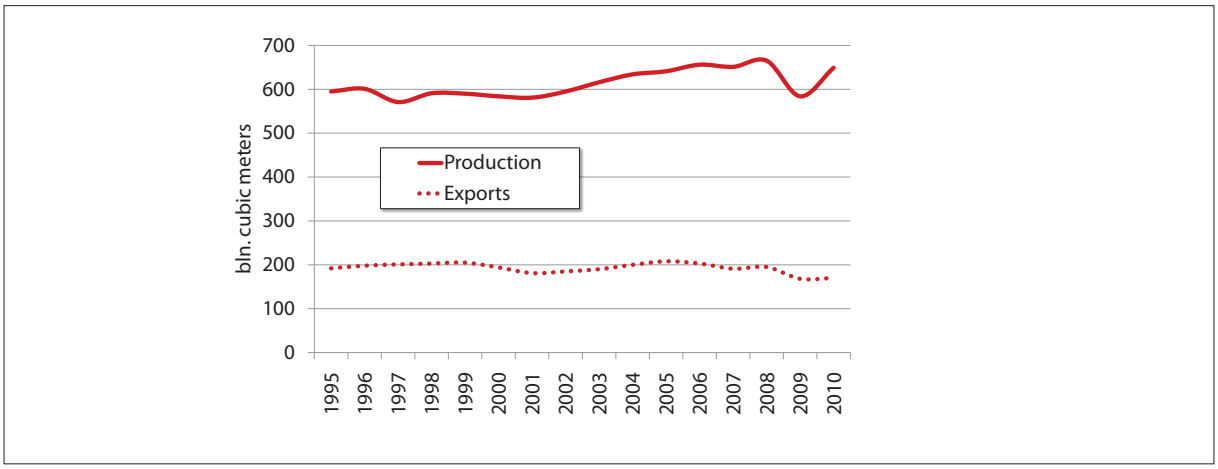
Production and Exports of Russian Oil and Natural Gas

Figure 1: Production and Exports of Russian Oil 1995–2010 (mln. t)



Source: Rosstat

Figure 2: Production and Exports of Russian Natural Gas 1995–2010 (bln. cubic meters)



Source: Rosstat