



**Modelling Russia's energy policy in Europe and
the Far East: from business to energy
superpower and environmental frames**

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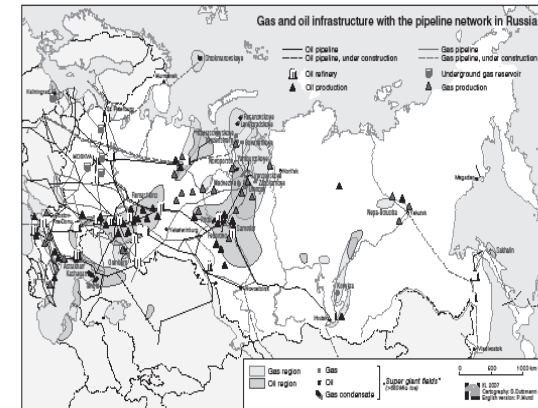
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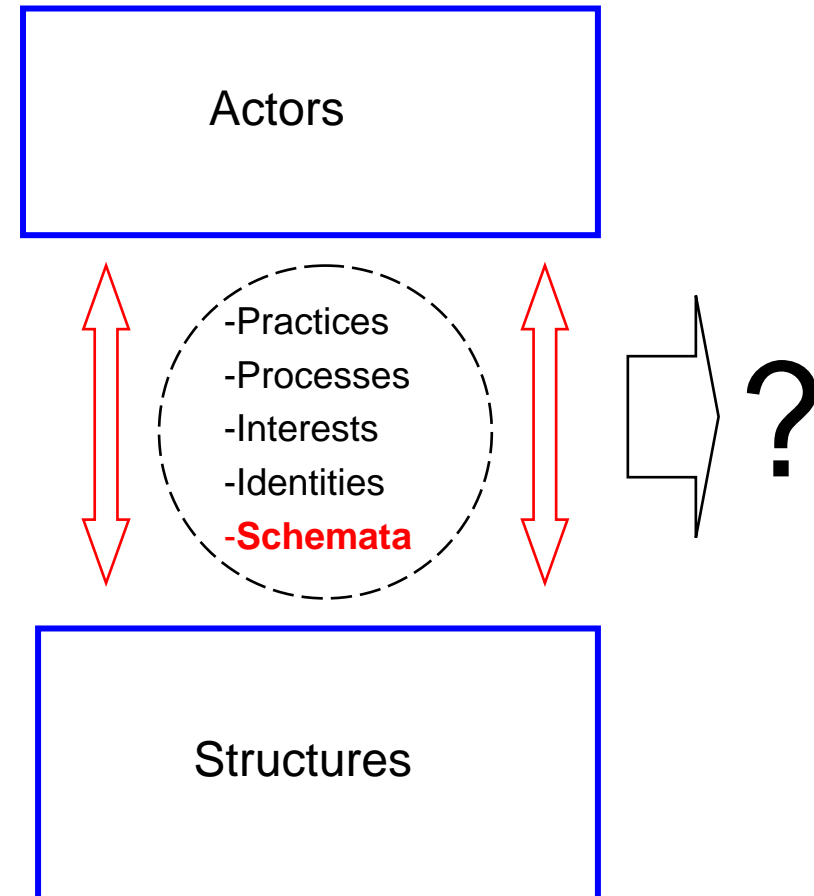
The divided debate on Russia's energy policy

- Russia as an 'energy superpower'? (e.g. Rutland, Goldman, Goldthau)
 - 'Coercive', 'imperial' energy policy especially vis-à-vis Central and Eastern Europe, where 'former spies making energy policy' (Orban, Smith, Larsson) vs.
 - Russia at best a regional player with global ambitions, with limited leverage vis-à-vis Europe (Perovic, Closson)
- Few theoretical efforts in international relations (IR)
 - Realism & influence through energy policy (Orban)
 - Combination of realism and liberalism to study 'Russia's strategic manipulation'; Russia is found sometimes more, sometimes less aware of how to best use its resources for political ends; influence varies from country to country and depending on energy source (Stulberg)
- Energy economics & business studies: study of energy prices, impact on Russia's economy, market behaviour and system of energy rents
- Resource economics and Russia's reserves
- None of these fields/disciplines has managed to fully cover the complex space of Russian energy – energy remains a 'no-man's land' (Strange)

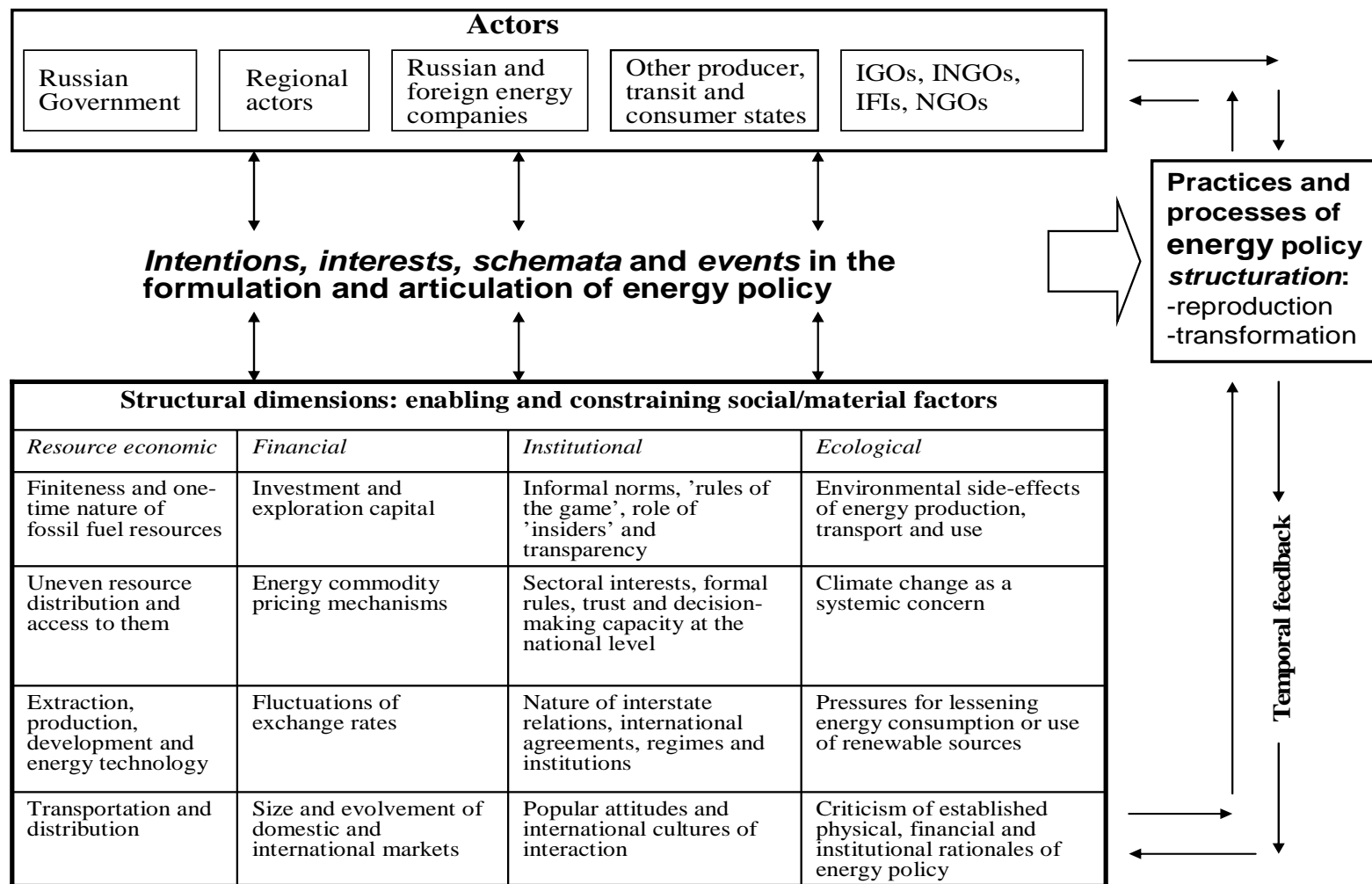


Towards a new analytical model: comprehensiveness and multidisciplinary

- Focus on energy *policy formation*: seen as a series of purposeful actions of managing energy issues either proactively or reactively, resulting in the relative stabilization of *politics* (Aalto and Westphal)
- Viewed as a more fundamental phenomenon than energy *security*
- Proceeding from the grand social theoretical foundation of *structuration theory* as discussed in sociology and IR
- Structuration instructs to focus on *processes* in which actors attempt to grasp their policy environments (structures). In these processes actors make choices in conditions of imperfect information. Consequently their ability to realize their interests depends upon the practices by which they acquire information of those environments.
- Structuration approach concretized for theorizing energy policy formation
- The model
- The model is comprehensive and can accommodate perspectives from several disciplines; some affinity with new institutional economics (Meulen)




Analytical model: the social structuration of energy policy formation





Analytical model: summarizing the main concepts

- **Actors:** state-centrism vs. transnationalism – national champions as hybrids
- **Actor intentionality:**
 - Individual-mode action i.e. ideal typical economic behaviour in the market
 - Collective or ‘we-mode’ bringing actors together
- **Interests:** fed by intentionality; the driving forces of energy policy formation
- **Schemata:** the wider cognitive practices within which interests are embedded and with which actors operate – helping actors to articulate their interests and assign meaning to surrounding policy environment
 - *Frames:* actor can articulate and decide coherently, i.e. has clear interests
 - *Sense-making:* situation where actor lack clearly formulated interests, struggling to figure out how an event or issue relates to her concerns
- **Policy environments** conceptualized in terms of **structural dimensions** through which actors have to ‘manoeuvre’ or ‘navigate’ with the help of schemata: *resource economic, financial, institutional and ecological*
- **Events:** require active agency to make them significant, performed with the help of schemata – *schemata are maintained or re-made in response to events*



Research questions

- 1) What interests and schemata Russian actors develop to navigate through their policy environments in the cases of the Nord Stream gas pipeline project and Sakhalin Island's energy politics?
- 2) What constellations of interests, schemata, structural dimensions and events help us to explain the unfolding and external impacts of these two energy projects?

The Nord Stream pipeline project



- Set to run from Vyborg, Russia, to Greifswald in Northern Germany via the Baltic Sea
- First trunk will be finalized in 2011 and second 2012, with the final capacity then reaching 55 billion cubic meters
- Official cost 7.4bln euros, likely to be more than 10bln due to delays and increased raw material prices
- Became an 'event' of its own as the most divisive energy project in Europe since the mid-2000s due to the interests it manifests and the events it became associated with
- Finnish partly state-owned Fortum withdrew from the project in 2005 by selling its stake to Gazprom, making it a German-Russian led project with BASF Wintershall and E.ON Ruhrgas balancing Gazprom's stake of 51%
- Dutch Gasunie (9%) and French GDF Suez (9%) have joined the project by buying into the German companies' stakes (15.5% each)
- Partners and sub-contractors from several member states of the EU, Norway and Japan
- 22 bcm of gas already contracted to GER, DEN, FRA, UK

Abandoning Soviet interdependence frame

- This comprehensive ‘master’ frame originally relied on interest in maintaining ‘Soviet energy equilibrium’:
 - *Resource economic dimension*: shared – guaranteed Russian supplies to UKR, BEL, CEE, etc.; shared energy transport infrastructure
 - *Financial dimension*: low domestic energy prices in the Soviet bloc, SU receiving proceeds from energy sales to Europe
 - *Institutional dimension*: loyalty to Moscow; Kantian culture of (coerced) solidarist relations among the bloc members
- Since Putin’s rise to power in 1999, Russian actors have quickly developed a strong collective intentionality of ridding themselves from this long-dominant frame
- New interest in bypassing transit states
- Several further interests and frames build on this shared foundation and partly lead to new policy directions

Major Russian gas basins



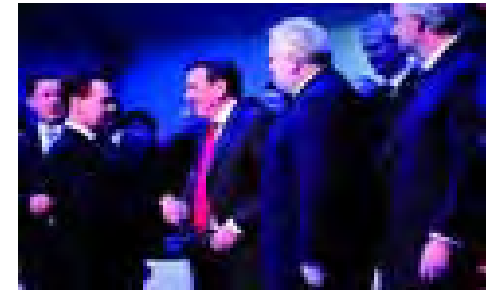
Major Russian oil basins



Source: IEA

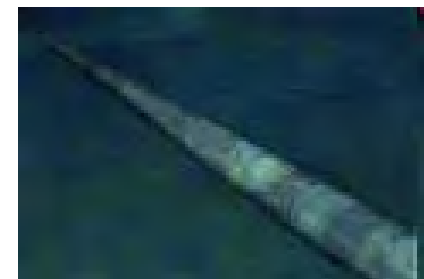
Business frame predominant

- Interest in making profit, focusing on the *financial dimension*:
 - 2/3 of RUS export earnings and 40% of budget from energy sales: state-building, domestic system of rents and regime legitimacy maintained
 - Natural gas key in the long-term due to oil reserves depletion (Grace 2005: with 2003 rates of production 'proved' oil reserves last 22 years, gas 78 years)
 - Gazprom: the state's 'cash cow' or internationally stock market listed, partly foreign owned transnational actor?
 - Gazprom needs high-priced long-term EU deals: weak market recovery in the CIS and pricing problems in Asia
 - Nord Stream promises
 - Less transit fees in the long-term
 - Access to new markets with less fees and borders crossed (e.g. UK, Netherlands hub)
 - Asset swaps with E.ON Ruhrgas, BASF Wintershall: upstream access to Yuzhno Russkoe traded to presence in downstream markets in GER, HUN
 - Strengthened energy province status for Leningrad oblast
- Collective intentionality among RUS, GER actors
- Business frame predominant, but even with new markets and asset swaps, the project not fully explained through this frame due to cheaper options available!

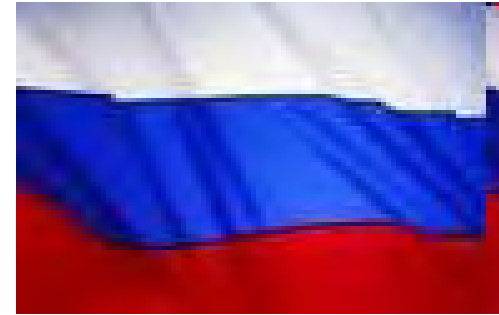


Energy security frame ambiguous

- Reconciling different security interests, focusing on the *resource economic* and *institutional* dimensions:
 - Establishing a new pan-European energy chain infrastructure
 - GER: security of supplies (but with same old Russian gas)
 - RUS: security of markets (yet at core the same market)
 - Creating new institutional divisions in interstate relations
 - Transit states like UKR, POL, BEL (the Baltic states): threat/loss of security of transit income and leverage (no new trunk to Yamal-Europe, ageing Brotherhood, no 'Amber' pipeline)
- Collective intentionality among RUS, GER actors cementing the legacy of *Ostpolitik*; yet fragile under the surface due to the divisive nature of energy security
- Nord Stream linked with the RUS-UKR gas supply security conflict since 2006 -- by RUS, GER to support, and by many others to resist the pipeline: creating new intentionalities
- The 'energy security dilemma' (Monaghan 2007) since 2006 testifies to the inherent instability of this frame: legacy of more than three decades of steady Russian supplies eroded and a new energy security debate started in Europe
- Energy security frame helps to explain the interest in bypassing transit states; yet the pipeline a very partial energy security measure as energy source and type stay the same!



Energy superpower frame



- Interest in using energy for political ends, focusing on the *institutional dimension*
 - 'Divide-and-rule' approach vis-a-vis the European market, not allowing concentration of transit leverage, customers to compete for Russian supplies
 - 'Molotov-Ribbentrop pact renewed' argument by customer countries (POL)
- Strikes a nostalgic chord but unlikely to display very widespread collective intentionality among Russian actors beyond temporary convergence among the Russian parties to the project
 - Competing sectoral interests within Russian regions
 - Rosneft's gas business unaffected
 - Privatized oil sector unaffected, and more dependent on global markets
 - No impact on the electricity sector
 - Global economic crisis questions the viability of power shift owing to the pricing model of Gazprom's piped gas vs. suddenly cheaper spot market LNG
- Compatible with business frame to an extent, but the relative strength of that frame for Gazprom itself undermines explanations focusing solely on 'energy superpowerness'
- In the long run energy superpower frame presupposes power shift to producers to guide policy effectively – may be an ambitious call with new greener energy agenda

Environmental frame

- Interest in environmental protection, focusing on the *ecological dimension*:
 - Threats associated with possible leaks in the pipeline as well as its construction on the seabed littered with hazardous waste, nutrients in a very fragile sea, and unexploded munitions
 - This framing was used in the Baltic states to oppose the project (Estonia evaded even a planning permission for a routing through its exclusive economic zone)
 - Used in Sweden and Finland as well but the pipeline was allowed to be laid across their exclusive economic zones; yet pipeline routing adjusted in several places owing to environmental considerations
- Nord Stream company also itself evaded the environmental framing by investing heavily for impact assessment and public relations campaigns; FIN, SWE approval crucial
- Overall unconvincing evidence of collective mobilization and intentionality: at the same time EST, FIN building an interconnector pipeline across the very same 'fragile' Baltic Sea, and Poland planned a pipeline from Norway via an extension to the planned NOR-SWE Scanled gas pipeline



Sakhalin Island's energy politics

- Sakhalin-2 became perhaps the most divisive energy project in the Far East in the mid-2000s
- Contains both oil and gas development and boasts Russia's first ever LNG production plant
- Russia/Gazprom regained control of Sakhalin-2 in 2006 by rebuking the 1994 Production Sharing Agreement (PSA) which clearly favoured the field operators Shell, Mitsui and Mitsubishi – with stakes of 55%, 25% and 20%
- Guiding Russian action we find the same business frame predominant as in Europe
- Energy security logic the same but less alarmist
- Energy superpower frame fails to convince as renationalization by rebuking the overly generous PSA was silently granted justifiable
- Environmental frame used instrumentally but this time deployed by Russia itself





Business frame explains re-nationalization, environmental frame supports collective intentionality

- Interest in making profit, focusing on the *financial dimension*:
 - Initial costs of exploration and assessment covered by the SU, but the PSA only allowed RUS to collect profits upon the foreign operators recouping their costs
 - Hike in energy prices from 10 US dollars per barrel negotiated at the project's start in the early 1990s dramatically increased the capacities of Russia and Gazprom to act
 - To worsen the business outlook for Russia, the foreign operators announced a doubling of their costs to 22 billion USD, citing rising steel prices and a weakened US dollar
 - The Russian Audit Chamber had already earlier suspected the cited costs
 - Domestic/regional pressures for generating some funds for the Sakhalin Island's poor economy were also piling for Moscow
 - Overall, the expected gain and involved timeline became intolerable for the Russian state
- Instrumental interest in environmental protection, focusing on the *ecological dimension*:
 - The Russian government capitalized on its expectation that the EBRD as the 'gatekeeper' international actor would not sanction additional financing for the project due to possible effects on the flora and fauna (pressures from international environmental movement)
 - Russia used its own environmental legislation to question Shell's environmental record
- Collective intentionality found among involved Russian actors, yet this as well represents a coalition of some Russian actors operating in the Far East



Why did this divisive project fail to develop into an ‘event’ changing energy policies in the region?

- For Russia’s customers Russian energy represents a new measure for diversifying away from Middle Eastern dependence and hence improving the security of supplies, whereas for many actors in Europe the issue is diversifying away from Russia
- Energy superpower framing never was much at issue for Russian actors; Russia at best has an emerging role in the Asian market even if the region’s resource economy is not unfavourable to RUS
- The different institutional international structure (Lockean-Hobbesian rivalry) compared to Europe’s largely Kantian culture also explains why the energy superpower framing failed to kick off
 - In Europe Russia partly lost the information war and was (finally) pushed out of the Kantian society of European states; could not control the complex, multilevel institutional environment
 - As interstate relations within the Far Eastern region by contrast are characterized by an inherent lack of trust, Russia’s institutional manoeuvres in the PSA perhaps never came as a complete surprise for the Japanese actors as they never deeply trusted Russia in the first place



General conclusions

- We find the same profit-making interests and associated business frame predominant in the two cases
- Energy security frame turns analytically most misleading concept as it portrays completely different logics in Europe and Asia – any ‘energy security’ talk must be examined critically and contextualized
- Energy superpower frame conveys usefully Russia’s increased action capacity since the 1990s; yet it captures less collective intentionality than assumed by the extreme depictions of Russia’s ‘energy imperialism’ as monolith state, even in the two examined cases where Russian actors succeed in realizing their interests
- Interest in environmental protection and environmental framing is instrumental, yet emerging for Russian actors
- Russian actors can build collective intentionality in energy projects but ‘Russia’ cannot be unequivocally taken as one actor
- Russian actors have realized successful energy projects in Europe but cannot control all of the consequences in the policy environment
- In Asia projects progress too but goals and means more modest, and regional structure less amenable for ‘sea changes’