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RUSSIAN ENERGY AND FOREIGN POLICY:
SOURCES, LIMITS, AND IMPLICATIONS

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Resumo: O artigo aborda as questões energéticas na Rússia e as implicações da sua política para os seus vizinhos e clientes.

Palavras-chave: Política energética, Rússia, política externa, União Europeia, comércio internacional de energia.

Abstract: The concept of a Russian energy weapon is a myth. A close look at internal and external elements of Russia's energy policy shows that Europe's high dependence on Russian energy imports is far less problematic than commonly assumed. The deployment of energy for non-economic foreign policy gains is generally difficult because of mutual interdependence, the special characteristics of the gas market, the difficulties to establish an international gas cartel, Russia's limited control over the Caspian states, and its fragile economic situation. Consequently, Moscow's attempts to use energy for foreign policy goals were limited at best. Rather, Russian foreign energy policy is driven by economic calculations, mainly as a result of the interconnectedness of Russia's political and economic elite. Contrary to general belief, the Kremlin's control over the energy sector is comparably limited, and, thus, its ability to mobilise domestic support for the use of energy for geopolitical reasons. But even if one assumes that the Russian government overcomes the multiple obstacles to use energy as a foreign policy instrument, it remains unclear how and for which aims it might do so. Moscow has neither a comprehensive energy strategy nor a clear idea of which foreign policy goals to pursue. Rather, Russian foreign policy in general seems to be drifting and responds mainly to shifting domestic or intra-governmental impulses. Consequently, to improve its energy security Europe needs to develop a more holistic approach, focusing on the development of its internal common energy market, a solution of the Ukrainian-Russian gas conflict, and a new framework for its energy relationship with Russia.

Key-words: energy policy, Russia, foreign policy, European Union, international energy trade.

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Russia's return to the international stage as a major power, its apparently more assertive foreign policy, and its seemingly more coercive attitude towards some of its neighbouring countries has incited renewed interest in Russia's internal political structures and in its foreign policy actions and goals. Because Russia's re-emergence to great power status is closely linked to growing global energy demand and rising energy prices, in particular Moscow's domestic and foreign energy policies have received attention by European policymakers and observers of the country and often caused rising anxiety among them.

The European Union member states are strongly affected by Moscow's energy policy decisions. Today Europe is the largest energy importer in the world, and its import dependence is constantly growing because of the foreseeable depletion of British and Dutch oil and gas reserves in the North Sea. Especially the reliable supply of crude oil and natural gas will be a major challenge in the next twenty years for the EU member states. According to the European Commission, the share of imported gas and oil will rise from 57% to 84% and 84% to 93% respectively until 2030. Europe's challenge of managing its import dependence is further complicated by its reliance on very few importing sources, with Russia being the most important one. Currently, Russia provides for 42% of the European Union's natural gas import and for 33.5% of its crude oil consumption, and it is highly unlikely that Russia's role as Europe's main energy supplier is going to change any time soon. Especially its significance as a major source for gas deliveries – Russia possesses the largest proven natural gas reserves, amounting to 26.3% of world total (on all statistical data cf. British Petroleum 2007) – will not change in the foreseeable future because alternative sources of supply are limited, and Europe's natural gas consumption is steadily growing. During the last twenty years, it has almost doubled, and its increase is expected to accelerate even further as natural gas is a comparatively clean source of energy causing less greenhouse-gas emissions than other hydro carbonates. Hence, if the European Union wants to reach its agreed upon aim of reducing its greenhouse-gas emissions by 20% until 2020, it has to extend its natural gas usage and consequently also the amount of gas import.

While Europe's growing import dependence is already a formidable problem in itself in times of high energy prices, the situation is further aggravated by concerns about Russia's role as a reliable energy supplier. Doubts about its trustworthiness started in 2005/2006 when Russia cut-off its gas transfers to Ukraine, thereby stopping the gas supply of Europe as well. This move and the preceding and following price increases towards Ukraine were regarded by many Western commentators as a retribution for the westward leaning of the Ukrainian government (see, for example, *The Washington Post* 2006). Fears about Russia using its "energy weapon" were further facilitated by Western

visions of Russia emerging as an increasingly authoritarian and anti-democratic power, by the extension of governmental control over the Russian domestic energy sector, by the exclusion of a number of foreign companies from different upstream projects in the Russian energy market, and by the repeated statements of Russian leaders about the vital role of energy for Russia's foreign policy. Finally, Foreign Minister Sergey Lavrov's proposal that energy exports should be deployed directly for political and economic purposes and former President Vladimir Putin's idea of the establishment of an international gas cartel similar to OPEC caused deep anxieties that Russia might use Europe's dependence on Russian energy imports for political reasons. Thus, the close energy partnership which had developed over decades, seemed to lose credibility, and EU member states started to regard their energy relationship with Russia as a major security problem. The fear of being politically blackmailed gave rise to a more geopolitical outlook toward the issue with energy security, understood as the provision of affordable, reliable, diverse, and ample supply of energy through adequate and multiple infrastructure (see Kalicki / Goldwyn 2005: 9), becoming a cornerstones of national and EU policies. Whereas the European Commission pushed for a more integrated EU external energy policy and proposed to focus on a norm-based approach to extend market-governance mechanisms beyond the Union's borders, some member states called for a more robust answer with Poland's proposal to deal with energy issues within NATO and to include energy disruption as a case to invoke Article 5 as the most securitized one. Although this idea was rejected by most member states, the notion that Russia might use energy as a foreign-policy tool is shared by many of them, and an intensive debate has started within the European Union and the national capitals about alternative supplier countries and optional transfer routes circumventing Russian territory.

Yet, it is controversial if the current anxieties prove fully justified and if the actual EU policy towards Russia is capable of improving Europe's energy security. To evaluate in how far Russia poses a threat by using energy in pursuit of non-economic goals one has to look at a number of elements that influence Russia's energy policy, both internal and external. First, can gas and oil in general be used as a "weapon" and is Russia technically and economically capable of doing so? Second, since the Central Asian states might be an important alternative to Russian gas, and Russia relies already today on their deliveries to meet its own supply commitments to third countries, how much control does it exert over them? Third, has Russia used its energy to pursue other foreign policy aims so far, and did it achieve the results it had hoped for? Forth, how easily can the Russian government mobilize domestic support if it wants to use energy for political reasons? And, fifth, does the Russian govern-

ment have a coherent foreign policy strategy including guidelines about how and in pursuit of which aims it will use energy as an instrument?

Economics matters in international relations, and so does energy. But this does not imply that either of them can be easily used as a foreign policy instrument. The actual capability of a supplier state to do so depends first and foremost on his ability to significantly influence the behaviour and autonomy of a consumer state through supply changes on comparably short notice. Economics and energy can of course be used to change the character of an interstate relationship over longer periods, but this does not necessarily give one state power over another because the adversary has time to appropriately adapt his own economic strategy. Only as long as the consumer state's vulnerability, i.e. his inability to compensate and rebound from costs incurred as a result of policy changes of the supplier state (cf. Keohane / Nye 1989: 13), is high, the supplier state holds a credible amount of leverage. Hence, two conditions must be met for energy to be used as a tool for non-economic foreign policy gains: The supplier state must be capable of altering the amount of energy transfers swiftly, and this change must have a sufficient impact on the consumer state. In how far these criteria are sufficiently fulfilled in Russian-European energy relations and if severe changes, like the emergence of a gas cartel are likely, is a subject of ongoing political and scientific debate.

Many Western analysts have voiced their concern that Russia actively works to raise the vulnerability of its costumers, referring especially to the high degree of governmental control within the Russian energy sector. Particularly the operations of Gazprom, the largest extractor of natural gas in the world and the largest Russian company, have been criticized repeatedly as being driven by the government for the promotion of Russia's strategic interests abroad. Although Gazprom is a joint stock company, 51% of the shares are owned by the Russian state and it enjoys a number of legal advantages, most notably the exclusive right to own and operate gas export pipelines in Russia. Moreover, the government has supported Gazprom on several occasions like (1) diminishing the status of foreign partners in upstream projects in Russia, (2) purchasing energy assets in Western Europe, and (3) lobbying for alternative energy export routes to markets in the Far East and South Asia. Furthermore, the government has (4) pioneered the idea of an international gas cartel and Gazprom signed cooperation agreements with foreign gas producers, for example with the Algerian government-owned energy company Sonatrach. Thus, Gazprom's commercial initiatives are frequently described as political activities of the Russian government and regarded as a latent threat to European energy security. However, for a more comprehensive analysis, one has to bear in mind some further characteristics of the Russian gas complex:

First, most of Gazprom's recent export projects have been developed in cooperation with foreign companies, including joint exploitations of gas and oil fields. These mutual projects include Blue Stream and South Stream, the cooperation with Wintershall at Urengoy, the joint venture with Eni S.p.A. in Astrakhan, the Gazprom-Shell cooperation in Sakhalin-2, the cooperation with E.ON-Ruhrgas, BASF and Gasunie in building Nord Stream and at South Russian fields, and the common plans with Total and StatoilHydro for the development of the Shtokman field (cf. Mitrova 2008: 6). Thus, although the access of foreign enterprises to the Russian energy market is restricted, Western companies continue to be included in major project. Furthermore, Gazprom has swapped assets on a small scale with E.ON-Ruhrgas.

Second, Gazprom's acquisition of assets in the European downstream sector facilitates mutual interdependence rather than further diversification of Gazprom's export options. The liberalization of the EU gas market offered Gazprom the attractive opportunity of direct access to European costumers. Whereas in the past gas was traded between different national energy companies at state borders, today foreign companies have access to Europe's downstream market and consequently directly to consumers. Gazprom has extended its market position in Europe constantly over the past ten years through various joint ventures and key investments, specifically in Austria, Germany, and Italy, thereby raising its revenues remarkably. Gazprom's recent investments into additional export pipeline to European countries and into utility networks within those states reinforced its focusing on the European market. Thus, Gazprom obviously intends to participate in the whole value chain (cf. Porter 1985) from exploration and production over refinement and transportation to selling, distribution, and maintenance. This is hardly a political attack on the European energy complex, but a common business strategy of large-scale enterprises pursued by all major energy companies worldwide. In this context, Gazprom's plan for new pipelines circumventing traditional transit countries seems to be equally motivated by economic reasons as it allows Gazprom to raise its share of the producer surplus by saving transit fees. But since Gazprom and Russian energy policy have become "not only politicized but also securitized in many European countries" as Godzimirski correctly remarks, "the company's interest in downstream investments is commonly seen as being politically and not necessarily economically motivated and as a challenge rather than as an opportunity" (Godzimirski 2009: 3). Consequently, a majority of member states has actively opposed Gazprom's expansion into Europe (and the simultaneous exclusion of European companies from the Russian market) and has called upon the European Commission to initiate legislative measures. In its third legislative package on energy, adopted on 19 September 2007, the Commission proposed to ban companies from third countries to

acquire control over community transmission systems or transmission system operators unless this is permitted by a special agreement between the EU and the respective third country.¹

Third, the special characteristics of the gas market foreclose competition between Asian and European consumers in the foreseeable future. Unlike oil, natural gas is mainly transported via pipeline. This kind of transportation has over time and worldwide proven to be the most cost effective mode of delivery. Still, connecting reservoirs with consumer markets by pipelines is difficult because it requires high initial investments and most of them are sunk costs. Therefore, any decision on a pipeline route once made generally predetermines the supplier-consumer relationship and creates a two-way dependence for a long time to come (cf. Mitchell / Selley / Morita 2001: 90). The result is that natural gas use has evolved largely in local, national, or regional markets which are inherently different from the global oil market. Most natural gas is exported under long-term contracts with pricing mechanisms pegged to petroleum products with a delay of generally half a year, while the amount of natural gas traded at spot markets is comparably small. Liquefied natural gas (LNG), which can be transported by tanker, is a potential alternative to pipeline grids, but currently constitutes for less than one-third of natural gas movements worldwide. Although progress has been made in cost-reductions, the LNG supply chain remains expensive, and its competitiveness very much hinges on relative prices for competing fuels and the willingness and ability to pay in receiving markets (cf. Juckett / Foss 2005: 532ff). Subsequently, the LNG market is primarily driven by long-term contracts as well. Thus, even though the European Union member states presently extend their LNG infrastructure, the regional separation of markets – and consequently the general characteristics of natural gas trade – will principally remain unchanged. Gazprom has often indicated that long-term contracts are its preferred option in order to ensure the return of massive infrastructure investments needed to bring Russian reserves to market, and Russian policy-makers continue to stress the importance of security of demand and deem a continued reliance on pipelines and long term contracts as the most effective way to achieve this goal (cf. Fachinotti 2007: 15). Any suggestion that Gazprom might readjust its export strategy away from European markets would doubtlessly be signalled by reluctance to extend long-term contracts when they expire. But no such signal is currently visible. Since 2006, Gazprom has renewed contracts on long-term gas deliveries with its key

¹ This move was generally seen to be directed almost exclusively against Russia, and therefore referred to as the “Gazprom clause”. Russia “retaliated” with a similar law in May 2008 tightening restrictions of foreign acquisitions of assets belonging to the strategic sector (cf. Pettibone / Naglis 2008).

European partners, including Eni S.p.A., E.ON, Gaz de France, Wintershall, and others for another 20 to 25 years. Furthermore, Russia is technically incapable to service Asian markets on anything approaching the scale of its energy relationship with Europe for at least the next decade.

Forth, the formation of a cartel of the world's leading gas exporting countries is highly unlikely. The key condition for an effective cartel is its ability to integrate all major producers, to regulate capacity expansion, and to enforce quotas upon its members. None of these conditions can reasonably be expected to be met any time soon. Currently some producer countries are organized in the Gas Exporting Countries Forum (GECF) which was founded in 2001. However, in its seven years of existence, it has not produced any significant agenda. According to Fachinotti "it has functioned essentially as an informal discussion platform, and its organization has been frequently chaotic" (Fachinotti 2007: 14). Beside sharp political differences between its members the biggest obstacle for the formation of a functioning cartel remains the fragmented structure of the natural gas market. While African producers (Algeria, Egypt, Libya, Nigeria) focus on the Mediterranean and the Atlantic Basin, South East Asian suppliers (Indonesia, Malaysia, and Brunei) trade mainly in the Pacific region. Large pipeline exporters such as Russia or Canada (which is not even a part of the forum) have their respective consumers in Europe and North America. As all natural gas producers underline the importance of security of demand and deem a continued reliance on long term contracts as the most effective way to do so, the development of a truly global market for natural gas cannot be expected. Furthermore, it remains unclear which country might perform as a "swing producer", raising and curtailing its natural gas output according to changes in demand. Naturally, this role should fall upon Russia as it is currently the world's leading producer (20.6% of world share) and possesses the largest reserves of natural gas (25.2% of world share), but through its lack of LNG infrastructure Russia is not able to bring its full weight to the international market (cf. Goldthau 2008: 262). Consequently, a clear indication of Russian leadership within the heterogeneous forum can not be observed. But even if an efficient cartel should emerge one day, it will hardly be usable for political reasons. At least the top five countries by size of reserves (Russia, Iran, Qatar, Saudi Arabia and the United Arab Emirates) will have to participate to make the cartel work. They might do so for economic gains, but barely for political ones. The relationship between Iran and its Arab neighbours continues to be severely stressed, the basic foreign interests and preferences of Western allies like Qatar and the UAE are scarcely compatible with those of Russia, and none of the countries has been known as a trailblazer for the formation of proactive and effectively working international institutions.



Finally, according to the Russian government, oil and gas accounted for about 20% of Russia’s gross domestic product in 2007, and Gazprom alone contributed around 20% of the federal budget’s revenues. Although Russia transferred a credible amount of its energy revenues into a stabilisation fund to help it in times of economic crisis, a sharp reduction of the relative weight of the oil and gas sector will significantly reduce the total budget revenue. Because Russia’s economic situation remains fragile, it cannot sustain long-term interruptions of its energy exports. And since alternative transit routes are not available, it will remain quite difficult for Russia – despite Europe’s high dependence – to use its energy as an instrument in the pursuit of non-economic goals, especially in an offensive, coercive way.

One promising way to reduce especially the economic obstacles might be the adding of Central Asian gas to Russia’s own through the establishment of a smaller, Caspian cartel, which leads to the second main question: How much control does Russia exert over the Caspian states?

When Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan declared their independence in 1991 they had the choice between bandwagoning with Russia as the new major regional power and balancing against it with the support of external actors, notably the United States and Europe. After a brief nationalist upheaval in some of those countries, all of them reordered their relationship with Russia and decided on a pragmatic foreign policy. Although relations with Russia proved to be differently close, from Kazakhstan’s “special

partnership” to the cooler relationship with Azerbaijan, all Central Asians followed the same basic strategy of tying the interests of external powers to the region and extending their independence from Russia without needlessly antagonizing Moscow. The biggest assets at their disposal to ensure enduring engagement of Western powers are their vast oil and gas resources, which amount to 3.9% and 4.0% of world share. Since September 11, 2001, their geo-strategic importance has been further enhanced through their proximity to Afghanistan.

Energy relations between Moscow and the Caspian countries have traditionally been close as Russia is the main buyer of oil and gas in the region. Central Asian gas is incredibly important for Russia’s domestic gas balance and its ability to fulfil its export commitments to the European Union. Without cheap Caspian imports Russia would hardly be able to sell large parts of its own production to Western Europe (on much higher prices) as Russia itself is the world’s second largest consumer of natural gas. Thus far Russia has enjoyed the advantage of being the main customer in the region as most pipelines are directed to its territory. When Russia signed further agreements with the Caspian states about upgrading of pipelines and extensions of the volume of gas exported to Russia many commentators believed that this meant the establishment of Russian hegemony in the Central Asian energy market. Russia seemed to have cut out Western efforts to get direct access to Central Asian gas, and come close to cripple the Western-supported plan for a Trans Caspian gas pipeline running from the eastern coast of the Caspian Sea to Baku (cf. Legvold 2008: 18).

The Central Asians, however, have repeatedly demonstrated that they have their own agenda, that they are not willing to submit to Russia’s interest, and that they take Russia’s calling for a multipolar international order at her word. Turkmenistan, Kazakhstan, and Uzbekistan, notwithstanding being long time partners of Russia, currently look for direct cooperation and trade contracts with European, Chinese and South Korean energy companies. Specifically Turkmenistan and Kazakhstan are interested in the Trans Caspian route and the Nabucco project which would allow direct sales to Europe and seek closer cooperation with external partners in the upstream sector (cf. Overland 2009; Torjesen 2009). Turkmenistan’s President Gurbanguly Berdimuhamedow for example recently signed a memorandum of understanding with RWE, allowing the German energy company to exploit gas- and oilfields in the Caspian Sea and to handle the export of corresponding products. Furthermore, both countries are participating in the construction of the China-Central Asia pipeline, which is expected to be put in full operation in 2010. Azerbaijan, on the other hand, continues to focus on the Russian and European markets, but proposed to sell Azerbaijani gas directly to Western Europe using Russia as a transit country. Whereas this proposal could be a realistic alternative for the European Union to the construction of the Nabucco pipeline, it is a hardly

bearable idea for Russia to become a transit country like Ukraine or Belarus as this would mean a sharp decline in Russian revenues because transit fees are remarkably lower than profits from the current reselling of Central Asian gas to Western customers. Finally, the recent decisions of Central Asian governments indicate that none of them is ready to submerge itself under a Russian-dominated cartel. Legvold points out that this impression is confirmed by the joint decision of Turkmenistan, Uzbekistan and Kazakhstan of January 2008 to raise their export price collectively from US\$140-180 per km³ to US\$350, “a decision that apparently came as an under-appreciated surprise to Moscow” (Legvold: 19). Hence, the recent developments in Central Asia make it even more difficult for Russia to sharpen its potential energy weapon, and a political threat to European energy security less likely.

Still, despite those difficulties, anxieties remain, particular among the new EU member states, that Russia might circumvent those obstacles or accept the economic costs of long-term cut-offs and use energy for political blackmail. The Central East European countries, foremost Poland and the Baltic States, with their living memory of Soviet rule and an import dependence on Russian gas of up to 100%, view the circumvention of their territories by new pipelines and Russia’s repeated stop of energy transfers to neighbour countries as a major national security challenge. Their concerns have been especially fomented by Russia’s handling of its energy conflict with Ukraine. From their viewpoint Russian energy cut-offs were mainly retaliations for the pro-Western orientation of the Ukrainian government and might one day equally be aimed at them. These fears were enhanced by statements of the Russian government warning Ukraine over plans to join NATO, and Poland and the Czech Republic against participation in the U.S. National Missile Defence system. But has Russia actually used its energy to pursue these or other foreign policy aims against Ukraine, or were the energy cut-offs motivated differently?

The origins of the Ukrainian-Russian gas dispute date back to the early 1990ies when Ukraine was almost bankrupt and unable to pay for Russian gas deliveries. In compensation, Russia demanded shares in the Ukrainian energy sector, however, due to the Russian dependence on Ukrainian transit pipelines for exports to Western Europe, Ukraine was not defenceless. It simply siphoned gas designated for Europe from pipelines to cover its basic demand. In the mid-1990ies, a compromise was forged which provided that Ukraine was to receive more than half of its gas imports in lieu of transit tariffs. Additionally, Russian leasing fees for military facilities on the Crimean Peninsula, and different kinds of barter deals were used to repay Ukrainian energy debts (on this and the following cf. Pleines 2008: 9ff). But the agreement did not arrive at a permanent solution as Ukrainian gas debts continued to rise. After repeated negotiations had failed to produce a sufficient solution during the following years in 2004, a

new plan was adopted that included noticeable concessions to Ukraine. Gazprom reduced its supplementary compensation demands, and the outstanding payments were offset against Gazprom's transit fees until 2009. As a result, Ukraine had resolved its debt issues with Gazprom, but was no longer to receive gas in lieu of transit fees from 2005 onwards. In the following years, the price of gas imported to Ukraine increased significantly, mainly due to price increases and delivery problems on the part of Turkmenistan which normally provided for the majority of Ukrainian import. The conflict escalated in early 2006 when no agreement could be reached on a new gas price. Gazprom suspended deliveries, but it was forced to resume them quickly because Ukraine again illegally siphoned gas and sale shortfalls in Western Europe were considerable. After intensive consultations Russia and Ukraine signed a new framework and their differences over energy trade were perceived to experience a distinct relaxation. Russia and Ukraine agreed on a complete repayment of Ukrainian debt, which amounted in the meantime to up to US\$ 7 billion, a fixed gas price for 2008, and access of Gazprom to the Ukrainian downstream market.

But on January 7, 2009, Russia once again stopped the delivery of natural gas, bringing transfers to Western Europe to a complete halt for twelve days. Such a situation was unprecedented and harmed both countries' images tremendously; Russia's as a reliable supplier and Ukraine's as a dependable transit state. The escalation of the conflict has been explained by the strong incentives of both sides to risk a severe confrontation and by Ukraine's additional room for manoeuvre at exactly that moment in time (cf. Pirani / Stern / Yafimava 2009). Ukraine had not just failed to repay its debt once more, but both sides were again unable to agree on price setting as well. Gazprom demanded an increase in Ukrainian import prices to the level that its Western customers paid, deducted by the cost of transport through Ukraine (so-called netback price). Although Ukraine generally agreed to set import prices and transit fees to market levels, both could not come to an understanding on how exactly European netback prices should be determined. Because Western gas prices are tied to oil prices with a delay of six to nine months, both sides knew that, by mid-2009, the gas price would decline sharply. Consequently, Gazprom was not willing to compromise on Ukrainian discounts, and Ukraine knew that it could reduce its payments considerably by prolonging the conflict. Due to the global economic downturn its industrial output in January 2009 contracted 34.1% year-on-year and, furthermore, the winter was comparably mild. Thus, Ukraine's gas demand was uncommonly low during that time which gave it additional latitude in the conflict. Why Russia was uncompromisingly tough during the negotiations at that time can only be partly explained by their concerns about a slump of revenues. Pirani concludes that the management of

Gazprom and the Russian government hoped that, “by embroiling Europe in the dispute, a new *modus operandi* [could] be established for the Ukrainian pipeline system. Much of what Europeans usually term Russian supply risk is actually Ukrainian transit risk, and that concerns Moscow” (Pirani 2009: 4). The idea of this strategy dates back to 2002 when Gazprom proposed to establish a Russian-Ukrainian-German consortium to manage Ukraine’s gas transportation system. That proposal, however, had been rejected by Ukraine. President Dmitry Medvedev’s recent statement at the EU-Russia summit in May 2009 that Ukraine’s inability to pay for Russian gas could end up in a repetition of January’s events indicates that the Russian government continues to pursue the strategy of pushing the Europeans towards a more direct involvement in the issue. Yet, as Westphal has argued, the constant problems between Russia and Ukraine over gas prices are not solely Ukraine’s fault. The calculation of “market” gas prices is difficult given the absence of a single worldwide gas market and Gazprom’s position as monopolist supplier. Furthermore, the confidentiality of commercial contracts with European importers makes it hard to establish even definite average prices and Ukrainian services provided to Russia, in particular its *de facto* subsidization of Russian gas exports to Western Europe, are difficult to evaluate as well (cf. Westphal 2009).

From a close review of the Russian-Ukrainian gas conflict follows that Russian suspensions of gas deliveries were always motivated by economic rather than political reasons. There is simply no empirical evidence for the claim that Russia has used its energy to influence Ukraine’s foreign or domestic affairs. It has done so, of course, by various different means. But rather than translating energy dependence into strategic gains, Russia alienated Ukraine by its price policy and cut-offs even further – a phenomenon which can also be observed in its relations to Georgia or Moldova. However, in the last two cases the argument that Russia tried to use energy as leverage to increase its policy influence seems more convincing. Still, its attempts were limited, and in both cases Russia failed to get the outcome it desired (cf. Olika et al. 2009: 97ff). Furthermore, it has to be taken into account that Russia has been raising prices, although at different speeds, for its adversaries and allies alike, with the aim of bringing all of them to Western levels. This actually eliminates the political element in Russia’s energy relations in which the supply of its neighbours with cheap gas has been a relic from the times of the former Soviet Union. Since the break-up of the USSR this has in effect meant an at least partial subsidization of the respective countries by Russia. Finally, it should be noted that Russia cut-off energy transfers for the same economic reasons to close partners like Belarus as well. Thus, as a general rule, Russian foreign energy policy has been mainly driven by economic motives, differentiating between political allies and others only slightly.

The strong role of economic consideration is also relevant for an assessment of the Russian government's ability to mobilize domestic support for the political application of energy to foreign affairs. A distinct feature of the Russian energy complex is the strong bond between its economic elite and the country's political leadership. While during Yeltsin's tenure a number of Russian oligarchs took over a range of positions in the Russian government, Putin appointed state officials to various key positions in strategically important Russian enterprises. The strengthening of governmental control over the energy sector was a central element in Putin's idea that a "steered democracy" and state capitalism were the best remedies for Russia's political and economic problems. It is mistaken, though, to assume that the steady strengthening of the role of the state under Putin's Presidency has resulted in tight governmental control over the Russian energy sector. While he succeeded in curbing the political ambitions of the oligarchs, control over the Russian energy sector continues to be distributed among three competing political clans: the "St. Petersburg lawyers," the "Siloviki", and the "Family". According to Kroutikhin, Putin's successful seizure of control over the Kremlin's political apparatus rested in particular on his ability to acquire support from these groups by balancing their conflicting interests. By acting as an intermediary between them, Putin limited conflict within Russia's economic elite and prevented any one group of prevailing over the others. But at the same time his decisions were often weak and sometimes even contradictory because he had to compromise on the groups' divergent interests in their fight for control over economic assets and revenue flows (cf. Kroutikhin 2008: 25ff).

The "St. Petersburg lawyers" are closely associated to President Medvedev and Prime Minister Putin and dominate primarily the gas industry. They are essentially technocrats, generally described to hold comparably liberal views on domestic and economic policy, foreign affairs, and civil liberties. The group has been in charge of the Kremlin's industrial planning and focused particularly on the re-establishment of governmental control over the gas sector. They used political power, judicial means and legislative tools to take over assets from independent enterprises, thereby successively extending Gazprom's market share, as well as its spheres of economic activity. Today Gazprom is a multi-dimensional enterprise resembling in many ways the classic Soviet conglomerate. It includes, beside others, subsidiaries in the financial and insurance sector, and the petrochemical and building industry. Most importantly, the group has redirected Gazprom's cash flows for their own and the government's leadership benefit.

The "Siloviki" are a group of current and former intelligence agency officials who are especially active in the oil sector. They are rather hawkish realists, emphasizing the role of power in international affairs and view the state and its security organizations as the backbone of society. The Kremlin has generally

allowed them to operate at their own discretion within the oil business, and they used this autonomy to extend state ownership in the Russian oil sector considerably. Assets were joined foremost in Rosneft, which became the largest oil company after Chordockowsik was forced to sell his shares of former oil giant Yukos. As parts of the group use their control of security organizations, customs administrations, the air transportation system, and other areas for their own personal gain, Putin attempted to limit their activities but has failed to do so. Putin might theoretically have used anti-corruption bodies to curb their operations, but as any serious attempt to do so would have implicated investigations against other groups and possibly himself, he refrained to do so.

The third influential faction is the so-called "Family", a group of businessmen which wielded significant power under President Yeltsin. During the years of the Putin administration they stayed mainly in the background, although continued to control key financial and metallurgical enterprises as well as some smaller energy companies. As the Family is closely aligned to President Medvedev their influence is expected to rise and they might possibly be the one group which opens up more room of manoeuvre for the Medvedev administration by establishing a balance between the other two.

As each faction has successfully resisted policies which threatened their narrow interests, the Kremlin's economic authority, and its control over the energy sector in particular, remains limited. Executive orders have been repeatedly ignored, altered, or even sabotaged. In Saunder's view, Russia's fundamental problem, beside other deficiencies like weak institutions, excessive bureaucracy, and poor inter-agency coordination, continues to be the excessive corruption of its government officials. He argues that, especially "those who use their personal power for private advantage undermine the very institutions that empower them. Thus, ironically and paradoxically, powerful officials are precisely the ones who keep the state weak" (Saunders 2008: 6). Hence, any serious attempt at developing a comprehensive energy strategy has failed, as can be clearly seen in official state documents such as the *Energy Strategy of Russia for the Period of up to 2020*, which are in fact just mere collections of possible scenarios than distinct political papers with a clear definition of preferences for specific goals (cf. Ministry of Energy of the Russian Federation 2003). Kroutikhin suggests that the factional struggles also help to explain why the growth of oil and gas production in Russian has been fairly limited in the recent years. The formal pretext is a desire to wait until prices increase enough to make the development of hard-to-recover oil and gas reserves commercially viable. Kroutikhin points out a second explanation for Russia's unwillingness to invest heavily in its upstream sector: Such investment would result in a negative cash flow for at least a decade, but as the political situation in Russia is not stable enough, many policymakers are unsure if they will remain in control for

that long. Consequently, the governmental leadership and economic elite prefer investments in export pipeline projects and the European downstream market, which offer the prospect of quick returns with huge kickback payments and exaggerated budgets (cf. Kroutikhin 2008: 29). Thus, the division of the Russian energy sectors among the above mentioned groups constitutes a system of limited checks but working balances. As long as this system remains untouched it will be very difficult for any government to use energy in a broader scope for foreign policy ends as costs, and benefits are unlikely to be distributed equally among the different groups. The deep interconnectedness of Russia's political and economic elite, therefore, does not facilitate the mobilization of domestic support for the use of energy for non-economic gains, but, on the contrary, impedes the employment of the energy instrument.

The most fundamental question when evaluating Russia's foreign energy policy, however, is the fifth: assuming that Russia is economically and technically capable of using its energy resources as a foreign policy instrument, that it exerts at least indirect control over energy exports from Central Asia, and that its leadership succeeds in mobilizing domestic support for the use of energy as a foreign policy tool, does the Russian government have a comprehensive strategy for using energy within a broad scope of possible alternatives? Does it have at least a clear idea of which foreign policy goals to pursue? Although the Russian leadership recently presented a number of guidelines which shall drive Russian foreign policy, nearly all empirical evidence to this point suggests the answer of both questions is no.

In August 2008, in the immediate aftermath of the South Ossetia war, President Dmitry Medvedev presented five principles which are supposed to guide Moscow's foreign policy: Russia (1) stresses the importance of international law and supports its further development, it (2) rejects a unipolar world order (i.e. U.S. primacy) and works for the promotion of a multi-centred international system. Hence, it (3) renews its commitment to non-isolation and underlines its active role in international affairs, focusing especially on (4) the protection of Russian citizens and business interests abroad, and (5) the preservation of its own sphere of influence which consists primarily, but not exclusively, of its immediate neighbourhood (Medvedev 2008).

Medvedev's principles were based on the findings of the Russian Ministry of Foreign Affairs study *A Survey of the Foreign Policy of the Russian Federation*, published in March 2007, which was described by then-President Putin as a detailed examination of Russia's relationship to various countries and its interest in different world regions. The study indeed raises a number of Russian concerns, for instance that other states might interfere in sovereign Russian matters or some states' excessive reliance on military force as an instrument of policy. Furthermore, it addresses some key challenges of world affairs like the proli-

feration of weapons of mass destruction or the international promotion of human rights and on many of those issues the Russian governments presents tangible proposals. Additionally, the study illustrates once more that Russia has taken an increasingly multidimensional view of power, recognizing the importance of economic, cultural, and public-relations instruments in addition to more traditional instruments in pursuit of its foreign policy (cf. Hill 2006). However, a closer review reveals that throughout most of the text the study is merely a patchwork of incoherent individual items. Neither does it incorporate an apparent Russian vision of world politics or a proposal for a new global order nor does it offer clear outlines for Russia's most important bilateral relationships. At first glance, Russia does indeed call for multipolarity, and the acceptance of its sphere of influence; and the desire to project an image abroad of influence, and importance is a critical component of Russia's foreign policy (cf. Oliker 2009). But "to say Russia wishes to be restored to great-power status or to see unipolarity fade and international relations "democratized" – all desires that leaders have voiced – is to say little" (Legvold 2007: 13), as Russia does not answer the question of what kind of world shall follow from multipolarity and for which occurrences Russia envisages the use of its power.

If one looks at a variety of regions and policy areas, it is hard to escape the impression that in general Russian foreign policy is drifting and responds mainly to shifting domestic or intra-governmental impulses, rather than being based on a well-elaborated and comprehensive strategy. Russia has no concrete idea on how to use international or regional institutions, it is unable to prioritize its foreign policy agenda, and it is uncertain about what kind of relationship it wants with various countries. Most evidently can this be seen in the study's passage concerning Russian-Ukrainian relations: "[Both countries] were and will be major, strategic partners for each other ... Russia is striving towards deepening links with Ukraine on the basis of the principles of good-neighbourliness, pragmatism and mutual benefit" (Russian Ministry of Foreign Affairs 2007). This lack of conceptual clarity can be adapted to almost any of Russia's bilateral relationships as Russia seems to view almost any country as a potential partner, while, simultaneously and depending on the context, also as a probable competitor (cf. Schuette 2004: 9). As a result on many of the most difficult international questions Moscow cannot decide on a clear strategy and frequently keeps itself at bay instead of leading the debate – a problem that has spoiled Russian foreign policy for some time (cf., for example, Johnston 2003).

This problem is also evident in Russia's energy relationship with Europe. From the concept of a strategic partnership with the European Union and its member states to the opportunistic talk of "balancing between consumers and producers of energy", from the notion to use energy for political gains and as a mean to strengthen its position as a major power to the promotion of the idea

of greater interdependence with its consumers, from various proposal for the joint development of energy sources and transportation systems to the exclusion of Western energy companies from the Russian market, Russia's foreign policy has been repeatedly contradictory and changing. The only constant element seems to be the resolve of the Russian government to maintain as much control over the energy complex of the former Soviet Union as possible and to strengthen at the same time the influence and market position of Russian energy companies in European consumer states. But that barely generates a scheme for incorporating energy into foreign policy as Legvold correctly points out (cf. Legvold 2007: 19). Nor does it suggest that the Russian government has any idea of how energy can actually be used to promote Russia's broader foreign policy objectives, let alone what those broader Russian objectives exactly are. In the end, the impression arises that in many cases it is not Russia's foreign policy steering its energy policy, but the other way round: the entanglement of private and public actors seems to have lead to the subordination of Russia's foreign policy under the narrow economic interests of the Russian energy business (cf. Gaddy 2006: 25ff).

The concept of a Russian energy weapon is a myth. Although some members of the Russian government might hope to have the ability to use energy as an instrument of both domestic and foreign policy, they have only limited capabilities to do so. Consequently, Russia's attempts to use energy for foreign policy aims were limited at best. The gas conflict with Ukraine reveals that it is difficult to identify, let alone prove, that Russia's political leadership pursued tangible foreign policy objectives by interrupting the transfer of natural gas to Kiev. The goal has rather been to enforce payment of debts, acquire control over assets, or dictate new price levels. The conversion of energy into substantial political influence will remain difficult; still, it is not impossible. Russia, like other major producers of energy, might use the dependence of consumer states one day to push through its national interest. But that this might happen within the foreseeable future is rather unlikely. Thus, for now, it is seriously overstated to call for an extensive development of alternative sources of supply irrespective of costs, let alone a geostrategic solution of the issue.

Russia is not a threat, but it is not an easy partner either. To improve its energy security Europe needs to address a number of internal and external problems and develop a more holistic approach, combining economic and political elements as interdependent parts of a comprehensive energy strategy. It needs to focus specifically on (1) the further development of the internal common energy market, and of alternative sources of energy, (2) a solution of the Ukrainian-Russian gas conflict, and (3) a new framework for its energy relationship with Russia, preferably including Central Asian energy producers and transit countries as well.

A major obstacle to an enhancement of Europe's energy security is the Union's inability to make substantial progress in the development of its internal energy market. But as long as a number of member states continue to curb the liberalisation attempts of the European Commission, Europe will not be able to respond to external shocks as a single entity. Furthermore, the lack of sufficient bidirectional pipeline interconnections, storage facilities, information exchange mechanisms and European-wide market rules undermine the usability of the solidarity mechanism. Progress in both areas would be a major step forward in improving energy security, as would be a more rapidly develop of alternative energy sources. The EU has taken a clear decision to increase the share of renewable energy sources to 20% of its energy consumption by 2020, but during the current economic downturn several member states declared to procrastinate changes in their energy mix. As renewables can be one of the most reliable energy sources this development has negative implications for Europe's foreign energy policy as well.

As long as the Russian-Ukrainian gas conflict is not solved, supply interrupts continue to be a latent threat. The main difficulty in finding a viable solution is that the new transit regime has to be agreed upon ex-post with the complete transfer network already in place. However, unless the parties cannot agree on a clear transit regime including a new pricing formula, the structural problems of the conflict will not be solved. As 80% of Russian gas transit to Europe runs through Ukrainian pipelines, the Europe Union should make it clear that it deems a long-term solution necessary and voice more openly its offer of assistance. Although EU instruments to influence the parties to the conflict are limited, Westphal notes that the EU has not invoked all of the institutionalized mechanisms at its disposal so far (cf. Westphal 2009: 18). As both, Russia and Ukraine, violated bilateral agreements, common practice of international law, and Article 7 of the Energy Charter Treaty (ECT), Europe should insist on a complete and fundamental discussion of norms, rules, and international conduct.

Finally, Europe and Russia need to find a new legal framework for their energy relationship and a way to stabilize the complex set of relations between energy producers, transit countries and consumer states. Growing global demand, stretched supply, and the transport issue, increasingly require new forms of regional governance on which all parties can rely in order to set conditions for reciprocal energy security (cf. Westphal 2008: 49). Whereas Europe's focus is on security of supply, Russia's main concern is security of demand (cf. Yenikeeff 2006). Although these differences in European and Russian outlook are well known, Western policy-makers continue to talk in terms of energy security primarily about measures to reduce the Union's external dependence, rather than developing pan-European market interdependence. Youngs argues that Europe's energy policy currently "hovers ineffectively 'between the market and geopolitics'. It needs instead a means of conjoining mar-

kets and politics as mutually-conditioned parts of comprehensive energy security" (Youngs 2007: 15). The problems of Europe's limited integration of both elements into its energy policy can be observed in its negotiations with Russia on the Energy Charter Treaty (ECT) which Moscow refuses to ratify. The treaty is from Russia's point of view a relic of former Western primacy when Moscow felt impelled to accept Western policy proposals. It is neither in Russia's interest (it includes the provision to put national pipeline system under international supervision), nor does it work in Russia's opinion as Ukraine's frequent failure to pay for energy deliveries in time has demonstrated. Russia repeatedly raised the point that the European Union will not get around to negotiate a new regulatory framework, but the EU continued to insist on Russian ratification (cf. Rahr 2006). The Russian government finally presented its conceptual approach to a new legal framework in April 2009 (cf. Medvedev 2009). As most provisions of the paper are rather unspecific, it is too early to comment on it in detail yet, but two points are noticeable: First, Russia proposes to negotiate for a universal and comprehensive treaty, i.e. it should include all major energy-producing, transit, and consumers countries, and cover all aspects of global energy cooperation. Second, the paper calls for non-discriminatory access to international energy markets, their opening and increased competition on them. The recognition of indivisibility of sustainable global energy security and interdependence of all of the world's energy exchange participants, and their mutual responsibility for global energy security would indeed be a major step forward.

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