

An aerial photograph of a long pipeline stretching across a vast, flat, green landscape under a cloudy sky. The pipeline is supported by wooden posts and runs from the bottom left towards the top right of the frame.

# A Re-energized Russia & International Security: Moving Beyond the Great Game

Adam N. Stulberg  
Associate Professor  
Co-Director, CISTP  
Sam Nunn School of International Affairs  
Georgia Institute of Technology

# Renewed Debate

- Globalization vs. Great Game Redux?
  - Energy rich, statist/Realpolitik-inclined bully
  - vs.
  - 21<sup>st</sup> Century, rule-based, inter-dependent player

## Bottom-Line

- Globalization = Power Politics
- Distorts Russia's Energy Stature
- Overlooks Puzzle of Variable Success
- Neglects Indirect Forms of Statecraft

# Outline

- Myths Surrounding Russia's Energy Power
- Strategic Manipulation & Energy Statecraft
- Russia's Mixed Success in Eurasia
- Implications for Competition & Engagement

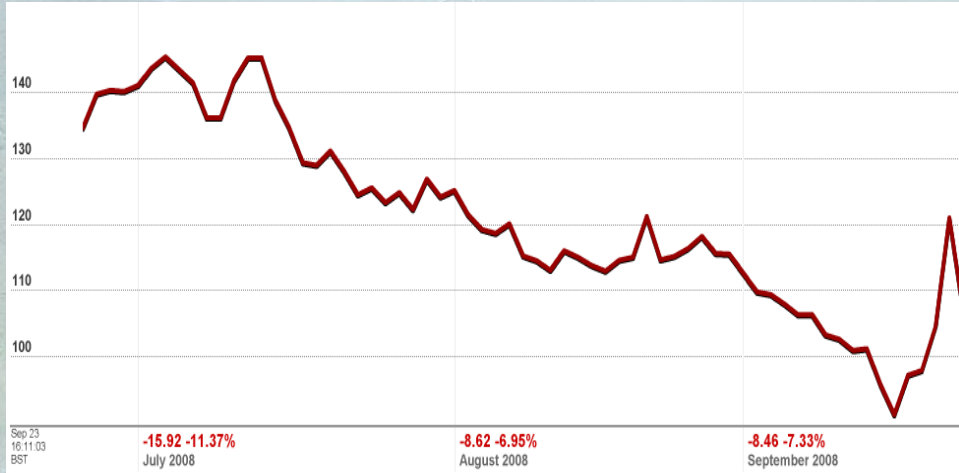
# Common Myths

- Myth 1: Energy Dependency on Russia is One-Way Street
  - Reality: Inter-dependence/co-dependence
    - Value to Russia of X > EU of M? (few options)
    - Fixed NIS infrastructure (incremental adv.)
- Myth 2: Russia = Energy Superpower
  - Reality: Gas superpower vs. oil price-taker
  - Pipeline economics: incremental competition
  - Structural impediments
    - production, investment, export, regulatory

## Common Myths

- Myth 3: What's Good for Gazprom = State
  - Reality: Divergent interests/choices
- Myth 4: Russia's Global Energy Doctrine
  - Reality: Variety of strategies & tactics
- Myth 5: Russia Energy Statecraft = Uniformly Successful
  - Reality: Eurasian Conundrum
    - Variation across sector, state, time
    - What is Success?

# WTI 1 Month Futures 3 Month Lag



Sep 23  
16:11:03  
BST

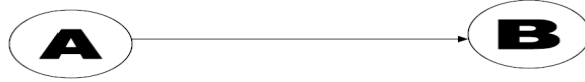
Source: Financial Times  
[www.ft.com](http://www.ft.com)

# Strategic Manipulation

- Focus= Target's Decision-making Situation
  - Alter decision base-lines and frames
    - Range of options/opportunity costs of compliance
    - Riskiness > expected utility of options
    - Gap between positive and negative values of options
      - Compliance= safe bet for risk averse target vs. high value outcome for gamblers
  - Criteria
    - Market power
    - Domestic regulatory transparency
  - Efficiency
    - Ex ante
    - Minimize showdowns/credible commitment problems

FIGURE 1.2

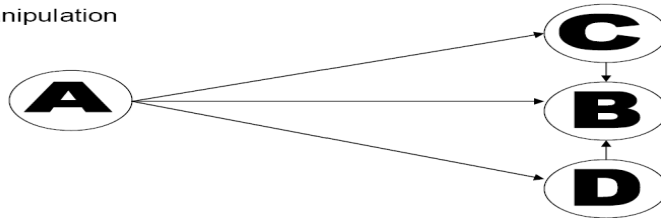
Relative Power



Interdependence



Manipulation



# Russia's Gas Diplomacy

- Accentuating Risks for Turkmenistan
  - Increase downside of X to West
    - Beat to punch in EU: volumes; Nord/South Stream; downstream
    - Woo Azerbaijan residual gas supply
    - Upstream development in Africa & ME (Libya/Nigeria/Algeria, Iran)
  - Increase upside of X to Russia
    - Raise prices (EU level) of Central Asian gas
    - Raise volumes/transit options: Pre-Caspian Pipeline (PCP)
  - Domestic price discrimination
  - T's gamble on deepening dependence on Russia
    - 25-year deal (90bcm/y) vs. barter/price/transit monopoly
- Reassuring Kazakhstan
  - Woo incremental demand/emerging Asian markets
  - Improve reliability/certainty and pay-offs of Russian investment, delivery of Kaz. Gas/Central Asian -Center Pipeline/PCP
  - Dependence as "safe bet"
    - Eurasian Gas Cartel/Russia as K's gas hub
    - Debt-equity (processing/export)

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# Russia's Petro-Diplomacy

- Azerbaijan: "Defying the Odds"
  - Failure to devalue: FDI, alternative pipelines; US/transit state guarantees; risks of national sector delimitation
  - Recalcitrant Russian oil lobby
    - Shut-in independents/Transneft opacity (quotas & pricing); regional intervention
    - Chechnya
  - Concerted defiance
    - 4 of 24 JVs (<10% stakes)
    - De facto national sector concession in Caspian
    - BTC
- Kazakhstan: "Cautious Opportunism"
  - Failure to devalue: FDI; multiple pipeline options
  - Transneft recalcitrance (pricing, monopoly rents, delays, discretionary taxes)
  - Quiet defiance
    - Modified median precedent
    - 4 of 43 JVs
    - BTC

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# Implications: Competition

- Statecraft
  - Manipulate risks > coercion/inducements
  - Future of Russia's leverage
    - Varies across gas vs. oil sectors
    - Gas =waning asset (future in hands of others EU, PRC, US, Turkey?)
      - Domestic liberalization (domestic prices/pipeline access) > regional predation= Russia's future competitive advantage
    - Oil= Re-statization < regulatory transparency (Russia's competitive advantage)
      - Relax taxes (mineral resource, value-added, custom duties; admin reform, tax breaks for exploration)
  - Flashpoints
    - Turkmenistan's gas future
    - Nabucco vs. South Stream
    - Relaxation domestic gas price controls
    - Kazakh support for BTC not= TCP
    - Supply-NIS consumer relations (Belarus/Ukraine)
    - EU Energy Strategy (diversification/liberalization, transit vs. intra-EU divisions over long-term contracting)

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# Implications: Engagement

- Oil
  - Let the market in!
  - Diversification in integrated market > Western pipeline fixation
  - Engage but no need offer concessionary terms
  - Address “intermediary” issues (build on Czech case)
  - Encourage Russia as complementary E-W hub
    - domestic transparency/face market
- Gas
  - Damage limitation
  - Asia/emerging > Europe/established
    - Asia= deliberate expansion
    - Europe = Russia-Nabucco?
    - NIS suppliers: opportunists (Kz, Az) > gamblers (T)
  - IR firms as service providers > ownership in Russia?

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