Dr. Legvold began his talk by explaining that his primary interests were in areas of the foreign policy of the Soviet Union and the situations of post-Soviet countries. He explained that what holds these two topics together is the issue of energy. Energy is also what links his broader look at how the West is dealing with Russia today. He noted that even topics such as those related to the ballistic missile defense in Europe arguments are not unconnected to the energy issue.

**Russia Is Back**

For good and for ill and much of it is ill
- There is much anti-democratic regression going on now inside Russia
- Once again Russia is throwing its weight around in its neighborhood
- Challenging US foreign policy

All happening because of energy issues – this is where Russia can play

Related questions to consider
- How does Russia use its golden goose that provides high energy revenues?
- Is the golden goose within government control?
- Does the government have the strength to control the golden goose?
- Is it being used as part of a good strategy or are government actions contradictory?

Russia has reemerged as a self-proclaimed Energy Superpower, but…
- How much control does it exert over the resources of others?
  - Its capability to control situations may depend on others
- How much of an Energy Superpower is Russia, and for how long?
- What factors constrain it as an energy exporter?
- What are the implication for the regions most effected – Europe and China?
  - How much leverage does Russia really have with Europe and potentially with China?
Is it plausible that Russia will/can use its leverage with Europe? China?

Russia has only seen itself as an Energy Superpower in the last 5 years
- During Soviet times energy was less important than strategic issues for developing its superpower status
- Today, Putin and the pundit class focus on the importance of energy
  - Part of the public sees it this way, too
- Energy is critical to Russia’s restored status
  - Also, critical to its foreign policy
  - May not have been true when Putin began his administration
  - Now see oil and gas as important resources and tools
- In 2005 Putin said that at least for that time energy was very important to Russia’s position in the world
  - One of his deputies noted that Russia must chose what works for them and then do it better
  - If you have strong legs, you go out for the long jump, not chess
- During the Orange Revolution in Ukraine, Putin and others noted that oil and gas were for today’s Russia, what nuclear weapons were for the Soviet Union
- Bottom line on Superpower thinking:
  - Shows the broad foreign policy implications of oil and gas capabilities
  - Helps to explain why Russia is exerting itself in the energy sphere
  - What looked like discrete actions now can be seen as a pattern from the beginning

Some recent actions that were not so separate
- State control of Gazprom was more important than the political issues that appeared to be involved in the takeover
- In the last year there has been an effort to eliminate foreign involvement in oil/gas exploration/exploitation efforts known as Sakhalin II among others
- In 2006 Russia decided that it alone would exploit the Barents Sea reserves
  - Norway had initially been involved
- State monopolies are being pushed by the government again
  - Not just oil and gas – all strategic commodities
- Russia also wants control of the energy transportation infrastructure
  - Such as the power grid in Georgia issue
  - Today’s energy transport grid is left over from Soviet times so it extends beyond current Russian borders

This set of trends involving energy come from 4 factors:
#1 Rising energy revenues have significantly improved Russia’s economic situation
- There has been a rapid rise in prices for oil/gas
  - 1992-1999: the average Barents crude was $22.50 a barrel (in 2005$)
  - During the renewed Superpower period prices have gone up dramatically
    - 2000-2004: $30-$40 a barrel
    - 2005-2006: up to $70 a barrel or more
• This has led to Russia having a surplus in its current accounts
  o Now 13% of GDP
  o Such success would definitely add confidence to any government
  o Russia went from a debtor to a financier
• Current accounts growing by $15B a week
  o Has 3rd largest energy reserves so likely to continue
  o Comes in much behind China’s coal reserves but still enormous
• Paid off its Paris Club debts ahead of schedule
  o Done without the country noticing any major difference
  o Paid $17B in last installment with no notice in the populace
• Partial explanation for Russia’s assertiveness over the last 5 years

#2 There has been a recovery in Russia’s capability to produce oil
• After end of Soviet era production had dropped dramatically
  o Was about 12 million barrels a day
  o Dropped to about 6 million barrels a day
• Now up to about 10 million barrels a day

#3 General feeling in the country that under Putin order has been restored, especially
when compared to the Yeltsin period
• Can see this in Putin’s Munich and other speeches
• Russia is still not completely secure with itself
  o Much will depend on how good the turnover is as Putin leaves

#4 Among energy consumers in Europe there is fear about the stability of the supply of
oil from the MidEast
• First concerns came after 9/11 and then the Iraq war
• Also concerned about Venezuela’s stability

Big question: Does new self-confidence/self-image come with a well-conceived agenda
and a coherent strategy?
• How much leverage does the price of oil/gas really give Russia?

Oil/Gas Reserves (Slide 3 and 4)
These slides compare Russia with Saudi Arabia, Iran, Iraq, and the post-Soviet region
• In oil Russia cannot compare with the MidEast countries
• Gas situation is completely different – Russia dwarfs all other countries reserves
  o Qatar is pushing the concept of a GASPEC
  o Top 3 suppliers would cover 73% of all reserves

Oil export pie chart shows where Russia and the former Soviet countries stand
• Together they almost match the exports of Saudi Arabia
• No other countries come close
• Slide #6 provides 2005 figures, but Russia is now up to about 10mbbl/day
Russia could actually do better with energy exports but it uses much of its own gas

- Due to energy inefficiencies in its systems
- World gas consumption is also rising, especially in China
- Slide #7 provides details on Europe’s need for gas
  - Germany is very dependent but some of the smaller countries are close to 100% on Russia
  - The important figures are those involving percentages at the bottom of the table detailing how much gas comes from Russia

All of the figures presented in the slides came from five or six sources

- Opinions on reserves and other estimates vary widely
- Export figures are more accurate
- Note: many of the smaller Eastern European and Baltic countries are nearly completely dependent on Russia for the gas imports
- Enlargement in NATO has meant that Europe has become much more dependent on Russia for gas than was previously the case

How much of real leverage does Russia get out of this situation in the long run?

- Production projections show great variations
- Most estimates see levels rising through 2020 but then dropping significantly about 2030; however, Russia would still be producing about 10 million bbl/day
- The Post-Soviet countries will have similar problems but more long term
- To make significant progress Russia will need to make major investments
  - Russia will not be able to handle this by itself
  - Russia will have to rethink its current arrogance to get needed support
• To the extent that Russian foreign policy optimism and assertiveness is dependent on the production and export of energy, the post-Putin leadership will be confronted with a major challenge in the future.

Gazprom fields are already facing dropping production levels
• They need to do much more to keep up/expand production
• Russia says they can do it, but not everyone believes them
  o Especially by 2010 – and then there will be even more pressure
• Other problems involved
  o Limitations on exporting capital from Russia today cause some consternation for investors
  o Deficiencies in the energy transportation grid especially for gas which is tied to pipelines
  o Location of natural gas fields: largest is 1000m below sea level
    • So getting to these deposits will not be easy

On the slide compare where deposits are and where pipelines go
• If Russia chooses to cut off gas to Europe, where could they send it?
• So Russia’s dependency on the European market is almost as strong as the European need for Russian gas
• Currently, Russia can only send gas to China by rail

Basically, both Russian oil and gas flow toward Europe
• Europe is about 40% dependent on Russia
80% of Russian exports going beyond the old Soviet countries go to Europe
Another 12% go to Turkey, a NATO member
Currently, only 3% goes to China but that will change in next 15 years – or so they say

A Russian Energy Strategy?
Putin and his colleagues do not have an energy strategy to make strategic use of their oil/gas exploitation wealth and clout

- In 2002 Putin started to stress that Russia was an energy partner with the West
  - Wanted to be a reliable alternative to MidEast oil
  - There was talk of building pipelines to supertankers in the north to ship oil to the US
- In last 3-4 years, Russia has become an energy opportunist
  - Standing between consumers and producers
  - Much talk about operating this way

Post-Soviet areas are usually looked at as separate pieces, but…
- Although apparently Balkanized, they are still highly interconnected
- Russia has shown contradictory behavior
  - Has worked with the US on a Caspian Sea pipeline
  - Also stopped a line to avoid Iran
  - US wanted to reduce Caspian Sea countries’ dependency on Russia
- Russia wants to assure consumers that they have been reliable suppliers for 40 years
  - However, Russia has also been seen as ham-handed with its immediate neighbors
  - Somehow Russia assumes that Germany and Eastern Europe would not notice
- Russia has tried to increase access to Western markets but refuses to give reciprocity
- There has been a great deal of vacillation
  - Russia wants to push other oil producers out of the Pacific region and the north
  - Also much negotiating back and forth with China and Japan over regional issues
- Result: There is a great deal of uncertainty about Russia’s intentions toward the rest of the world

Gas is central to Russia’s future so Europe is crucial, too
- Even in the oil market Europe is still more important to Russia than Asia is
- Persian Gulf oil is still important to Europe, Japan and China
- Many interconnected relationships and dependencies
- Russian oil is at the core of Europe’s energy security
  - Explains the tension in the Russian-Europe relationship
  - Europe has a much more elaborate agenda with Russia than does the US
    - Some specifics come and go but energy issues remain
Energy issues have come to dominate
- Human rights issues are now technical questions about visas, etc.
- Lots of frustration evident

Russia refused to ratify Europe’s Energy Charter which involved:
- Protection and promotion of investments
- Freely moving trade in energy products
- Unencumbered energy transportation through pipelines

There is also concern about how Russia is dealing with its near neighbors on energy
- Effect on Europe may not be direct, but is of concern

Russia has more objectives than high prices
- It wants to increase its equity share in energy transportation
- Wanted 51% control of some pipelines under discussion

Part of this is merely hard bargaining tactics but very upsetting to Europe
- And they have told Putin of their displeasure

Result: Europe wants to diversify its suppliers
- So risk averse that considering lines from North Africa
- This leads to what is going on in the post-Soviet area
  - Russia wants to make sure that Europe cannot diversify
  - Russia designing alternative pipelines
- Russia has rushed to complete new lines
  - Has been successful in getting Eastern Europe to buy in
  - Continues to threaten that it will build other new lines

Recent example: Turkmen pipeline of Caspian Sea oil to go through Russia
- Both Europe and US would like some Turkmen oil to go to Europe
- Russia has convinced Turkmen leadership to go along with new pipeline that goes through Russia
- Ties up all available Turkmen oil until 2028
  - So none will be available for any potential alternative line

The New Great Game
- Rather like 19th century international relations involving Afghanistan
  - Much strategic maneuvering
- This time it is all about energy
- Involves more that markets – political and strategic issues
  - Europe is divided on this
  - Germany already has a large stake in some areas
  - Gazprom can be considered part of a cartel already
  - More an issue for Central Europe rather than France/Italy

About Asia
- China’s rapid growth has increased its need for gas and oil
- According to Russia’s energy minister, Russia could supply 80% of European needs and 20-25% of what China and Asia required
  - Questionable whether Russia has the supply to do this
• Bigger issue is with pipeline capacity
  ▪ Currently building a huge 3,000km pipeline to China by 2011
• Russia also agreed to supply Japan and more for China
  ▪ Considering a 4,200km pipeline to move enormous amounts of oil
  ▪ By 2010 Russia expects to have an enormous leap in productivity
    ▪ If low estimates are correct about Russian reserves, they
      will need Turkmen gas to meet the contracts
• Bottomline: Russia will not have enough gas to export without supplies
  from the Central Asian countries

A Developing Relationship: Russia / China / India
• New cooperation
• Not a strategic triangle against the US
  ▪ None of them can afford to stand against the US – especially India
  ▪ India likes its new relation with the US
• However, substantial three-way relationship is growing
  ▪ At least 4 major meetings
  ▪ All hold similar views on space and terrorism
  ▪ India is different domestically in that it is a more real democracy
• There is an energy dimension
  ▪ Post-Soviet countries play a part
  ▪ China potentially wants a secure land route for energy from Russia
  ▪ More difficult to get Russian energy to India given the mountains
    ▪ By sea does not make much sense
    ▪ But Russia wants to sell nuclear power systems to India
    ▪ Russia also talking to Saudi Arabia about nuclear power

Some Conclusions about Russia and the Post-Soviet Spaces
• Russia will be increasingly important in the field of energy
  ▪ More important than Nigeria, Venezuela or Mexico
    ▪ Also not Norway which does not let energy issues get involved in its
      foreign policy
  ▪ Russia will continue to make broader use of energy in its strategic efforts
    ▪ US will need to think about how Russia is involved in energy issues
• Energy issues are multipliers, not a direct source of friction
  ▪ In 2002 Putin purposely talked about an Energy Partnership
  ▪ By 2003 things were going wrong and breast beating began as part of the new
    Great Game
  ▪ US needs to raise the level of attention much higher on Russia and energy
    issues
    ▪ Must address all the elements as a single piece – not separately
    ▪ Won’t be easy because of all the other strategic issues involved
      ▪ Not really separate from Polish missile battalions
      ▪ Also relates to Kosovo, North Korea, Iran, etc.
      ▪ Energy will just make all of these issues more complicated
QUESTION & ANSWER SESSION

Russia has an ambitious program based on the rising prices in the gas market to support improvements domestically

- Gazprom has 76% of the domestic market
- Other issues are involved but there are price controls, too
- As Russia moves toward WTO membership these price controls may change
  - Other domestic issues involved
  - Not clear how long this process will take

Fundamental problem: US thinking about Russia may be too narrowly focused

- Iraq has taken over all other issues, but US will have to come back to them
- For first 10 years after the Soviet collapse, US totally ignored Russia
  - There were some individual issues to discuss – Caspian Sea, Islamic terrorism, etc.
  - US saw Russia as so weak that did not bother about it
    - Did not take it seriously as a player
    - By the end of the Clinton Administration, completely disengaged
- There was a moment of opportunity after 9/11 when Putin rallied to US side
  - Even went against many of his own people on this
    - Of 16 factions in the Duma, only 2 agreed with him
  - After the Crawford, TX, meeting in 2001 and some exchanges related to major treaties, there was some interaction with Russia
    - Then the Bush administration considered Russian strategic relationship “done” and moved on
- What would a real alliance with Russia look like?
  - Would it be equal to the old Atlantic Alliance?
  - Could be based on their mutual interest in a stable Central Asia
    - May be too ambitious
- Relationship started to fall apart
  - There was some effort even under Yeltsin to begin a relationship
  - NATO enlargement was seen as a threat and a rivalry
  - On top of Russia’s general anguish about losing control of that area
    - Russia feared what it could not control
  - US side just ignored Russian concerns
- Now US must start paying attention to Russia again
  - Saw complications in the Orange Revolution
  - Putin said it was all caused by the US and its NGOs
    - Others including China bought into the concept
  - Had new assertions on top of insecurities
- There was an opportunity to work with Russia, but it is now gone
  - However, US must recognize the need for that relationship
  - Few candidates in the presidential race are even looking at this issue
  - Energy issues are simply emblematic of the overall problems
The Russian military is already doing better than it had been doing immediately after the Soviet collapse

- Russia’s military budget is only about 7% of the US defense budget
- The will to transform is not there despite the need for it
  - However, collapse has been stopped
- Beginning to refurbish the military
  - Talk of “retargeting weapons” is part of that
  - Not likely to build any new weapon systems – beyond their capabilities
  - May have new versions of old platforms
  - By 2010-12 Russia will only be able to launch on warning
- Officer corps is doing better but still not building a real defense establishment
  - At least the defense leaders are happier with the administration
- Also helps that as the size of the GDP “pie” increase with the rise of energy revenues, so does what is available to the military
  - The government is now able to buy off various portions of the population with improved services, goods, etc.
  - However, they should be investing more to improve the infrastructures they would need to continue growth
  - As the stabilization fund approaches $100B there is some talk of redistribution for things like improved medical care
    - They are not doing the structural reforms needed for sustained growth

Other Future Concerns

- Moving to a hydrogen energy system is not likely in the near future so is not playing in Russian plans
  - Russia believes oil/gas will be central to world economies
  - No problem even if nuclear power makes a come back and China depends more on its coal supplies
- Russia must realize that it cannot play rough with the post-Soviet countries
  - At least it is now using carrots as well as sticks occasionally
- In the short term it is all strategic maneuvering and the New Great Game
- Russia is rather like the guy who wins a fortune but does not know what to do with it
  - Russia wants/believes in its Great-Power-ness – a Russian word that can’t easily be translated
  - Russia wants to be treated as a Great Power even if they no longer have the military or economic clout to be one
- Energy is 60% of Russian exports
  - Rising and/or falling prices will have a major impact on domestic conditions
- Russia must decide how it will use its new power
  - Not being used to build Russian national security
  - Must deal with US militarization, etc.
  - A lot depends on how they will use their energy