

**Lecture 8: Resource Nationalism (IV) – Russia and Asia**

Resource nationalism

- Russia is exemplary example of both types

Russia

- More aggressive ownership rights assertion by the state over international oil companies
- During 1990's there was a liberalization of the Russian energy industry
  - Foreign investment
  - 50/50 TNK BP joint venture
  - ExxonMobile almost took majority stake in Yukos
- Under Putin there has been huge reassertion of state power in the industry
  - Gazprom and Rosneft
    - Both companies had IPOs in Europe
  - Came to believe that total control was not necessary... just 51%
- Norwegian state oil company Statoil did this before Russia
- Italian companies are currently trying to get a piece of upstream Gasprom and Rosneft (the parts that used to be Yukos)
  - They won't have a majority stake by any means, but they are willing to play along with the hoops the Russians want them to jump through because the Italians believe that it is worth having some stake than no stake at all, and it will allow them to have more access to resources later on in the future
- There are still opportunities for foreign companies to be involved in upstream portions of the Russian oil companies, but you have to be willing to play the games the Russians want you to go through; essentially you will won't have any ownership in the strategic portions of the industry, but you will still get a piece

Other form of Resource Nationalism

- Controlling the rate at which energy resources are developed and marketed
- Putin has created a new paradigm in energy policy
  - We don't know what Yeltsin would have done in this same situation
    - During his two terms Russia was a different place economically
    - In first term, though, with his more liberal economic advisors might have taken a different track than what Putin is doing now
  - Putin came to office with a very different strategic paradigm in mind
    - Believed that these were strategic assets and the state needed to control how they were marketed and divvied out
  - Putin came into office with the hope of reestablishing Russia as a powerhouse (reverse what happened in Yeltsin's terms)
    - Saw rising energy prices as perfect way to do this
  - Wanted to reestablish dominance in "Post Soviet Space"
  - 3 categories of countries that Putin is dealing with in PSS
  - Customers
    - Baltic republics
    - Ukraine
    - Moldova

- Kyrgyzstan
- Tajikistan
- Transit countries
  - Where Russia supplies oil and gas
  - Also where Russia runs pipelines to reach markets in Europe
  - Russia has leverage over them, but they have some leverage too because they control the infrastructure in their countries
    - Can push back by shutting down pipelines, siphon off supply, etc.
      - Ukraine did this recently
    - Russia has done this 50 times to transit countries, but never to European countries
  - Moldova
  - Ukraine
  - Belarus
- Supplier states
  - Central Asian producers
    - Kazakhstan
    - Uzbekistan
    - Turkmenistan
  - Russia is not paying market prices to these states, but they have the option of raising the prices if need be
  - Could stick with the existing infrastructure and pipe to Russia or they could spend lots of money on new infrastructure to other countries
    - Russians want to make sure the math still adds up to make it beneficial for these countries to pipe to Russia

#### Putin's use of Energy lever outside of Post Soviet Space

- Europe and Asia (maybe US in the future but not now)
  - Very big supplier of gas to Europe
    - 80% of production goes to Europe
  - Tried to increase dominant position in European markets
- Doing this in ways that will increase leverage in former Soviet countries
  - Creating new infrastructure that will no longer go through current transit countries
- Trying to coordinate relationships with other key exporters to Europe
  - Algeria
    - Easy place to go for gas if Europeans want to get away from Russian gas
    - Putin is trying to work more closely with Algeria to coordinate sales and exports to make sure neither is undercutting the other in gas market
  - Qatar
  - Libya
  - Egypt
  - (Iran)
- Possibility of forming a "gas OPEC"
  - Putin says publicly that this is an interesting idea
  - Iranian leader also seems to think it is an interesting idea
- Gas Exporting Countries Forum → could turn into "OPEC-like" but not likely

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- Russia
- Iran
- Algeria
- Qatar
- Libya
- Egypt
- Venezuela
- Other African nations
- At this point, with most gas tied up in long term contracts, you won't see any sort of OPEC like quotas per month for each country
  - What this type of organization could do:
    - Coordinate the responses of major producers on certain policy issues
      - European Commission has pushed hard for liberalization of European energy markets
      - Essentially everything would be traded on a spot market basis in Europe
        - Russia, Algeria, Qatar are not so happy about this
          - Got commission to back down from eliminating long term energy contracts
      - Long term contracts should be indexed to the price of oil?
        - Might push prices above price of oil
    - Agree to allocate markets and market shares among participating countries
      - Something Russians like with respect to European markets

Gas market is quite different than oil market

- "Spot market" or future market determines price of oil in a given deal between countries
  - deals are reevaluated each month based on quality of output and markets
- Infrastructure for exporting gas is very different
  - oil shipped in tankers
  - ~80% of gas is exported through pipelines
    - Fixed
    - Single-destination infrastructure
    - Buyer and seller are kind of locked in to one another
  - Gas contracts are much longer term with more fixed rates
    - Much less flexible market
  - For LNG (which could potentially make market more like oil)
    - LNG still relatively small portion of global gas trade
      - ~20%
  - Because the costs of infrastructure are so huge (ships, plants, support, etc) you need a long term contract with a buyer will pay a certain price for the LNG over a 25 year contract
    - As LNG has grown, it has grown along the lines of long term – taker pay market
    - Starting to see a spot market for LNG transactions
      - See newer projects leaving portions of supply out of the deals so that they can carry out spot markets

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### Russia and Iran

- Wanted to go through Turkey to get to European markets
- Hard for Iran to expand gas exports to Turkey without Russian cooperation and acquiescence
- Export north to Armenia to Georgia and on to Europe
  - Gazprom and Russia bought energy plant in Armenia that pipeline served to stop the Iranian gas from continuing north
- Essentially, Iran can't break into Europe unless Russia says so

### Russia and Asia

- Russian policy demonstrates that you don't even have to export currently to an important market, but merely the possibility that you might in the future in order for people to have interest in you
- Russia exports virtually nothing into Asia, only a little bit to China by truck → very expensive
- Most of eastern Russian oil reserves are relatively unexploited and will have to be developed if they want to break into the Asian markets
  - Japan and China are battling back and forth to secure a pipeline to their country
    - Russia doesn't even have enough oil right now to supply Asia
  - Putin has used this
    - 5 years ago people were talking about how Russia was falling off the radar screen in Asia, and in 5 years he has transformed the face of Russia

### Russian Uncertainty

- How long it will take for Russia to expand their energy infrastructure
  - Some people think that there is no over-arching strategy for expansion
- Individual gain (among politicians) motivates a great deal of how this is playing out in Russia
- Leverett doesn't believe that there is no plan
- Key Russian decision makers believe that this expansion should move slowly
  - Russian interests are not well served by jumping to meet market demand
    - By leaving reserves in the ground you increase their long term value
- Lots of inefficiency that comes out of political enrichment in the Russian system, but there is still a great deal of planning on going on
- Some rumors say that Russia could replace Saudi Arabia as the swing producer
  - No indication that the Russians want to play that game
  - They have more interest in dragging out investment decisions until you think it's in your interest to monetize a given asset