

# Working Paper

## Developments in Energy Discourses in the Early Days of the Putin-Medvedev Tandem<sup>1</sup>

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## *Executive Summary*

The aim of this working paper is to examine the outlooks and discourses of key political actors/elite and policy documents on energy-related challenges facing Russia in order to map available options for energy policy. The study examines recent policy papers' and actors' positions on key energy-related questions with a particular focus on the first six months of the 'Putin-Medvedev' tandem.<sup>2</sup>

In mapping available options for energy policy, the relative robustness of ideas within the policy arena is a useful measure, assuming that ideas expressed by a variety of actors and recorded in a number of policy documents are likely to enjoy consensus and to be implemented. Ideas mentioned by just one person or just one document are still interesting in that they may represent a future direction or idea that may become more dominant in the medium term.

Amongst the robust policy discourses, we have:

1. Energy efficiency. Putin, Medvedev, the Ministries of Industry and Energy and the MED are unanimous in their insistence on reforming the domestic energy consumption sector in order to improve energy efficiency of the Russian economy.
2. Reducing dependence on oil and gas. Putin, Medvedev, Shuvalov as well as the MED take this up explicitly, pointing to the need for the economy to become more diverse, largely through creating better conditions for business and investment.
3. Innovation. Innovation is related to the point above, although this innovation can also occur within the energy sector (for example, higher levels of value-added processing; building up an energy relevant construction/technology sector in order to increase the level of extraction from known and new fields).
4. Better climate for business is called for under a number of names (rule of law, creating a good environment for investment).
5. Plans for tax holidays and the need to develop new oil and gas provinces are also mentioned by a broad range of actors (Putin, Medvedev, MED, Ministries of Industry and Energy).
6. Energy security. The notion of energy security that Russia forwards – the idea that it involves the security of producers, transit countries and consumers – is tackled primarily by Medvedev on the actor level, and by the Ministry of Industry and Energy and the MFA on the institutional level.

Interesting, but still more 'frail', ideas include:

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<sup>2</sup> Key actors analyzed are President Putin, Prime Minister Medvedev, and Deputy Prime Ministers Shuvalov, Kudrin, and Sechin. The three recent strategies addressed are the Ministry of Economic Development (MED) *Concept of Long-term Socioeconomic Growth of the Russian Federation*, the draft update of Russia's 2003 energy strategy prepared for the Ministry of Industry and Energy by a think tank, *Concept for a Russian Energy Strategy in the period to 2030* and the Ministry of Foreign Affairs *Foreign Policy Concept of the Russian Federation*.

7. Introducing greater competition in the energy sector. This idea was forwarded most explicitly by Putin and Sechin in calling for Gazprom to open its pipeline network to other actors who burn associated gas simply because they cannot reach consumers. The Ministry of Industry and Energy points to the same problem and alludes to the same solution.
8. Positive, pragmatic interdependence. Medvedev has in many ways brought a new discourse on energy cooperation with Europe evidenced above. Referring to a 'greater Europe' and attempting to provide more positive framings of interdependency and 'shared' projects represents a departure from the rather sour relations with the EU that marked the end of the Putin presidency.
9. Latin America. Energy diplomacy/relations with Latin America are mentioned only by Medvedev in one statement and in the foreign policy concept. In addition Sechin has been actively pursuing this path by paying two official visits to the region and discussing energy cooperation with regional leaders.

## *Structure and relevance of the study*

The aim of this working paper is to examine the outlooks and discourses of key political actors/elite and policy documents on energy-related challenges facing Russia in order to map available options for energy policy. The study examines recent policy papers' and actors' positions on key questions with a particular focus on the first six months of the 'Putin-Medvedev' tandem, including:

- 1) How should energy figure into the ongoing debate on the development of Russia's economy, including issues of economic over-dependence on oil and gas, depletion of energy resources, and global economic slowdown?
- 2) What kind of political significance should energy be assigned, including the issue of energy security?

Russian energy politics will, of course, be an outcome of the interplay between discursive/policy commitments and less directly controllable structural factors, such as the global pricing and existing transport networks. While this paper focuses on the discursive and policy commitments, in effect mapping the domestic marketplace of energy-related ideas, structural factors and limitations are also referred to throughout the paper.

The empirical basis for this research is the statements of key actors during the first months of Dmitrii Medvedev's presidency and policy documents released in 2008. On the eve of the presidential elections in March 2008, one could think that a tension might emerge between those members of the elite interested in a simple extension of then President and now Prime Minister Putin's policies and those who wanted to introduce some changes to the country's policy in the field of energy in order to make it better fit new domestic and international circumstances. However, after the first hundred days of Medvedev's presidency and small victorious five days war with Georgia that consolidated the country politically, we see Putin safely installed as the country's prime minister and Medvedev working hand in hand with Putin's loyalists in the presidential administration. Medvedev has thus far not been the liberal he was touted to be and it seems there is limited room for diverging views on how to approach the most important political and security challenges faced by Russia. At the same time, as is shown below, some new themes and discourses in the energy field have emerged.

One reason for this may be that while political consolidation points in the direction of more of the same when it comes to energy policy and politics, the global economic crisis may have increased concerns about the country's economic development. The international financial crisis has clearly shown Russia's economic vulnerability and its dependence on global markets and the falling price for main Russian export commodities may compel Russian elite to adjust their approach also to the problems of the country's energy sector. The statements and policies analyzed point to the 'marketplace of possible policy ideas' – some more and some less developed – that the Russian leadership has to draw upon in formulating a response. In this way, the mapping of the main energy related topics discussed in Russian policy and decision-making circles in the first period of the

'post'-Putin institutional framework is of relevance to Norwegian and other actors seeking to envisage future energy policy.

This working paper is based on an in-depth analysis of two types of sources. First, we examine the most important political statements on energy made by key Russian political figures in a period between Medvedev's election and the economic crisis in October 2008. Then we follow with a detailed analysis of several strategic policy documents from the Ministry of Economic Development, the Ministry of Energy and the Ministry of Foreign Affairs published in the same period.

### ***Key policy makers on energy***

This section analyzes statements made by key Russian actors relating to the energy policy of the country. In order to decide whose statements should be included, a brief preliminary study of the political influence of these actors was conducted using the reputational power maps published between March and September by *Nezavisimaia Gazeta* in its 'Top Hundred Russian Politicians' rankings. The table in Appendix 1 presents the results of that preliminary study. The list of names in the table includes the top ten Russian political figures in the September ranking and those actors who are in one or another way relevant in the Russian energy context either as key actors in that sector (like Alekperov, Bogdanchikov or Timchenko) or in their political/agenda-setting capacity (like Putin, Kudrin, Shuvalov, Zhukov). Several figures on the list belong in fact to both categories, for example Viktor Zubkov, who used to be the country's prime minister and has recently replaced Medvedev in Gazprom and Igor Sechin, who is both in Rosneft and in the government where he is responsible for the country's energy policy. What is relatively striking is the very weak position of the Russian Energy Minister, Sergei. Shmatko, on that list showing that he is to be treated more as a manager than as a real energy policy maker.

Based on the findings of that preliminary study of the political influence of the key actors in the first months of Medvedev's presidency, this section focuses on statements made by five top 'energy relevant' figures: Prime Minister Vladimir Putin, President Dmitrii Medvedev, Deputy Prime Minister Igor Shuvalov, Finance Minister/Deputy Prime Minister Aleksei Kudrin and Deputy Prime Minister Igor Sechin. Putin and Medvedev, unsurprisingly, play an important role in energy policy and Kudrin and Shuvalov were selected due to their increasing weight on the Russian political power map (see Table 1 in Appendix) and their relatively high profile on energy during the first five months of Medvedev's presidency. Igor Sechin is chosen due to fact that he occupies high position on the power map and is assigned with the task of shaping the country's energy policy. As is discussed below, all actors (besides Medvedev whose coverage is quite broad) cover slightly different ranges of key topics and highlight sometimes different issues and we pinpoint when these actors evidence divergence with respect to energy priorities.

## Putin on energy

Having in mind Putin's #1 place on the Russian power map and his impact on designing and implementation of Russia's energy policy over the last eight years, it would be natural to start by looking at his approach to energy related challenges. In brief, Putin, during his eight-year presidency, created a more centralized and nationalized energy structure in which Gazprom and Rosneft – two state-owned companies – had the leading roles in gas and oil respectively. His presidency was also marked by an emphasis on the idea of Russia as an energy superpower, able to exert regional and international influence in large part because of its petroleum resources. Interestingly, Putin's recent statements below indicate somewhat of a softening on both points – calling for more competition within the energy sector and pointing publicly to challenges now limiting Russia's growth as an energy producer (reserve depletion, lack of energy efficiency domestically among others). At the same time, Putin's statements evidence a tension between the older energy superpower discourse and the importance of being seen as a reliable and responsible actor in the energy market.

The most important and comprehensive public statement examining energy challenges facing the country was made by Putin at his meeting with key players in Russian energy sector that took place on 11 July 2008.<sup>3</sup> Putin called for *more competition and investment in the gas sector* and ordered Gazprom to improve access to its networks for other companies – a clear departure from his presidential policy of placing Gazprom in the driver's seat. Putin pushed Gazprom to understand its role in protecting general state interests, calling for them to improve access to the pipeline system to other actors in the sector to reduce burning associated gas in enormous volumes. He reminded Gazprom about the target of using up to 95 per cent of associated gas efficiently by 2011 and asked for report on why the Ministry of Natural Resources and Ecology proposed to extend the deadline by another year.

He expressed concern over *falling oil production* growth and 0.3 per cent decrease in oil extraction in the first quarter of 2008, underlining the need for development of new strategic centres of oil and gas extraction because 'the possibilities for growth based on the former raw material base and outmoded technologies have basically been exhausted'. This public acknowledgement of a potential resource crunch (although focused on oil and not gas) and the *urgent need to build out new fields* is a new development. Putin argued that the solution would be 'serious technological re-equipment and the formation of new strategic centres of oil and gas extraction.' He named the Yamal Peninsula, eastern Siberia, and Timan-Pechora (oil and gas) as possible new oil and gas centres that would have to be developed and added that Russia should also focus more on 'developing the rich reserves of the continental shelf'. Putin also called for modernization and fundamental rebuilding of outdated production facilities, especially in the area of oil extraction and deep oil processing. In order to achieve these goals he called for more investments in domestic scientific developments and purchasing new foreign

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<sup>3</sup> For more details on that see: Putin lays out key objectives, concerns for Russian oil and gas sector, Vesti TV, July 12, 2008, English translation in Johnson Russia List 2008#131.

technologies, and in training modern professionals. This was, in his opinion, the way to secure the competitiveness and strategic prospects of Russian energy companies.

This effort to build out new fields is to be accompanied by modifications in the Russian *tax regime* towards oil and gas producers, reducing the overall tax burden in order to make them invest more in development of new fields and technologies. In addition, Putin cited work on proposals for tax holidays and other tax measures to encourage development of remote fields in the Okhotsk Sea, Black Sea and on the Yamal Peninsula. The state was also willing to support new resource exploration and make amendments to the existing legislation in that area and to present a long-term programme to study subsurface resources and renew sources of raw and mineral materials up to the year 2020.

Another well-acknowledged step in ensuring that Russia will be able to play an increasingly important role as an energy exporter has to do with reform of the domestic market. On 1 October 2008 at his meeting with the government, Putin took up this theme, defining domestic *energy efficiency* as a strategic economic goal and stating that ‘the economy’s energy consumption will decrease at least by 40 percent’.<sup>4</sup> Only one week later Putin presented also his views on what he described as Russia’s gas addiction at his meeting with the leadership of the Communist Party. He said that in the past, in the early and middle 1990s, cheap energy resources and low cargo transportation charges were the core elements of the economy. He added that for the past 15 years Gazprom had been supplying natural gas to domestic clients at prices that were lower than market prices and that this situation could not ‘last forever’ and there was a need for cautious reform leading to harmonization between external and internal energy prices.<sup>5</sup> This issue was also addressed by Putin in his July speech, in which he called, interestingly enough, for more competition within the sector as a way of also ensuring better supply of energy commodities on the Russian domestic market in that it may lead to the removal of unnecessary intermediaries and clear rules for price formation.<sup>6</sup>

In the majority of the statements analysed, Putin sought to assure countries reliant on Russian energy. He underlined that Russia was to meet all its international obligations in the sphere of energy and will remain a *reliable and responsible supplier of energy* and will meet the growing domestic and international demand. In late summer 2008, during the conflict with Georgia, Putin made few statements on energy related issues, beyond a specific comment on Russia’s energy intentions in the Caucasus on 2 September. He stated that Russia had no intention to damage energy facilities in Georgia, a clear message to the West and an assurance to Russian energy partners and foreign companies involved in the region that Russia had only limited objectives in Georgia and that energy

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<sup>4</sup> Itar Tass, Russia's real incomes to double by 2020 – Putin, Moscow, October 1.

<sup>5</sup> Interfax, Russian Economy Can't Be Addicted To Cheap Natural Gas – Putin, October 9, 2008.

<sup>6</sup> For more details on that see: Putin lays out key objectives, concerns for Russian oil and gas sector, Vesti TV, July 12, 2008, English translation in Johnson Russia List 2008#131.

cooperation was not, at least officially, to become the victim of that war.<sup>7</sup> In September 2008, at Valdai Club Meeting, Putin repeated once more that Russia was set for collaboration and intended to continue supporting the energy security of the countries to which it delivers energy as ‘in a global world it is better to help and not trip others up.’<sup>8</sup> At the same time, Putin has reiterated a now familiar mantra that Russia will be guided by its own *national interests* and is not going to adapt its position to suit anyone else. In his view, those who wanted to work with Russia would have to play by Russian rules, or as he put it: ‘adapt to suit us, on open market principles, of course.’<sup>9</sup>

In sum, Putin’s statements in his new role as prime minister take a clear departure from his presidential policies – namely in the emphasis on competition within the sector and in publicly acknowledging challenges that could weaken, rather than increase, Russia’s role as an energy producer. However, there remains an unresolved tension in his statements on Russia’s energy relationships, primarily in the balance between reassuring consumers while asserting Russia’s national interests (which remain problematically undefined in many statements).

#### Medvedev on energy

President Medvedev has made several important comments and statements on energy related issues during his first five months in his new role. In terms of amount of statements and interventions as well as breadth of topics covered, Medvedev outweighs all of the other actors analysed, which raises the question of whether or not he may have particular responsibility for the energy sector, or at least energy relations with the EU and other foreign actors (as we argue below). Issues focused on by Medvedev include 1) the role of Gazprom; 2) the role of the state in the energy sector in general; 3) Russia’s relationship with the EU in the field of energy; 4) domestic energy efficiency and renewables; 5) energy security in general; 6) energy relations with non-European actors (Venezuela; Asia) and 7) new energy provinces for Russia.

In speaking about the *role of Gazprom* at a meeting with the leadership of Gazprom on 27 May, Medvedev presented his view on the role of this company in Russian economy. This role is ‘exceptionally important’ as in recent years ‘Gazprom has been not only the flagship of the Russian economy but also a major force in the world.’ Medvedev described Gazprom as a modern, growing, open company and underlined its importance for the Russian state by pointing out that almost 20 per cent of the federal budget income was derived from Gazprom’s activities. Looking ahead, he described the launch of North Stream and South Stream and the work in the Far East on a wide range of new projects in

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<sup>7</sup> Russia could never intend to damage energy facilities in Georgia – Putin ITAR-TASS, September 2, 2008.

<sup>8</sup> Gazeta.ru, September 11, 2008.

<sup>9</sup> For more details on that see: Putin lays out key objectives, concerns for Russian oil and gas sector, Vesti TV, July 12, 2008, English translation in Johnson Russia List 2008#131.

the oil sector as strategic projects for the company.<sup>10</sup> Interestingly enough, the calls for greater competition from Putin above were not echoed by Medvedev.

On a related note, Medvedev shared his views, albeit ambiguous, on the *role of the state in the energy sector* in an interview with Reuters on 25 June 2008 in response to a direct question on this topic. He noted that many countries have a mix between different levels of state involvement and stated that it was impossible to prescribe the precise correct level of state involvement. In Medvedev's opinion 'the extent of state participation in the economy should be decided based on each specific moment' and he saw no grounds 'for talking about increasing the state's presence in the economy' at this particular stage. He calmed his interlocutors by saying that the process of privatisation that began more than a decade ago was still going on, although a number of big companies, above all energy companies and some defence companies had been returned to state. In his view this was important for ensuring Russia's strategic economic interests, but there were no plans to further increase the state's presence in the economy.<sup>11</sup>

Medvedev has had a high profile when it comes to *energy relations with the EU* and out of the four key actors analysed is the only one to play a role in this issue, suggesting that this may be a clear part of his portfolio. Key issues in working with the EU are unsurprising – they focus primarily on questions of energy security and how to manage Russian-EU energy interdependency. On 6 June 2008 at the meeting with German leaders Medvedev shared his views on Russia's role in the sphere of energy security. He underlined need for cooperation as energy security could be achieved 'through the collective effort of all participants in the energy chain'. He said that Russia was ready to work with the EU in creating an early warning mechanism in the energy sector, with the participation of the transit countries and could consider the possibility of establishing international consortiums operating transit pipelines with the participation of companies from Russia, the European Union and the transit countries. This, he argued, could be part of a common European strategy on innovative progress and development of a common technological space.<sup>12</sup>

At the press conference following the Russian-EU summit in Khanty-Mansiysk (the first EU summit of Medvedev's presidency), he drew attention to two important energy transit projects – the Nord Stream and the South Stream gas pipelines – and argued against politicising energy issues. We argue that this is evidence of an increasing effort by the Russian leadership to separate energy from politics, which had become deeply intermeshed due to Putin's energy superpower discourse during his presidency. Medvedev described Nord Stream gas pipeline linking Russia directly with Germany as 'an exceptionally important commercial project' with immense significance for Europe and that 'is not directed against anyone'. Reacting to raising criticism towards this project

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<sup>10</sup> Kremlin.ru, Beginning of a Meeting with Gazprom's Board of Directors, May 27, 2008.

<sup>11</sup> Kremlin.ru, Interview with Reuters News Agency, June 25, 2008.

<sup>12</sup> Kremlin.ru, Speech at Meeting with German Political, Parliamentary and Civic Leaders, June 6, 2008.

he went on to say that ‘it is a non-political and commercially justified project that can unite us’. He warned also that it would be ‘better not to politicise what is a commercial project aimed at ensuring Europe’s energy security overall and not substitute its purpose with ideas of some other kind’. He expressed hope that progress had been made on that issue and the work on both projects the Nord Stream and the South Stream will continue because ‘Europe needs both these projects’.<sup>13</sup>

It seems likely that the Europe that needs these projects includes Russia, in which case these statements represent a further attempt by the Russian leadership to speak about *interdependency* and common projects. For example, Medvedev later spoke positively about the summit, reiterating that that ‘a strategic partnership between Russia and the EU could act as the so-called cornerstone of a Greater Europe without dividing lines’ and defining the fuel and energy sector and the high-tech field as the main areas for partnership. He called for more investments in Russia and said that ‘the need for business-like relations that go beyond any kind of ideology was evident at the recent summit in Khanty-Mansiysk which had a very pragmatic feel to it’.<sup>14</sup> At the same time, Medvedev stated in a later interview that energy cooperation with the EU can, however, be difficult because Russia and the EU have difficulties with finding a common platform for this cooperation.<sup>15</sup> This statement primarily speaks to EU insistence on signing an energy charter that Russian political elite have long since rejected.

Like Putin, Medvedev devoted much time to discussing the problem of *energy efficiency* in Russian economy. In a June 2008 statement, Medvedev commented that halving energy consumption in Russian economy had become one of the strategic economic goals. He added that authorities were meant to promote environmentally sound technologies and change the requirements for energy efficiency technologies, buildings, structures and production generally. The 2009 federal budget and that for 2010 – 2011 are to provide funding for projects involving the use of renewable energy and the introduction of environmentally-friendly and energy efficient technologies.<sup>16</sup> In a 7 June 2008 statement, Medvedev reiterated the importance of energy efficient technology and improving the efficiency of industry as an important challenge for Russia and a way of increasing Russian energy production.<sup>17</sup>

At the press conference organized in the wake of the July G8 meeting, Medvedev again shared his views on energy efficiency, nuclear energy and the role of biofuels. He described the issue of energy efficiency as very central in the Russian energy debate

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<sup>13</sup> Kremlin.ru, Joint Press Conference following the Russia-European Union Summit, June 27, 2008.

<sup>14</sup> Kremlin.ru, Speech at the Meeting with Russian Ambassadors and Permanent Representatives to International Organisations, July 15, 2008.

<sup>15</sup> Medvedev is against conflict with West. *Nezavisimaya Gazeta* September 19, 2008, By Konstantin Remchukov

<sup>16</sup> Kremlin.ru, Opening Remarks at the Meeting on Improving Environmental and Energy Efficiency in the Russian Economy, June 3, 2008.

<sup>17</sup> Kremlin.ru, Speech at the Global Energy International Prize Award Ceremony, June 7, 2008.

when he said that ‘the development of new energy technologies based on the model of energy efficiency’ was crucial for Russia because ‘the issue of energy boils down to a large extent to the issue of energy efficiency’. He added that, although Russia has very large reserves of energy, especially fossil fuels, the country had to work to enhance the energy efficiency, this could be Russia’s contribution to ‘the solution of the global task connected with climate change and reducing greenhouse gas emissions’.<sup>18</sup> He went on to describe atomic energy as an opportunity, although acknowledging the environmental risks: ‘nuclear energy does not create problems with greenhouse gas and in that sense is environmentally absolutely clean’. He also paid some attention to the production of biofuels but described the issue as being more complicated because, as he put it ‘some experts believe biofuels create serious problems on the food market’.<sup>19</sup>

At a group interview with G8 journalists, Medvedev expressed some points on *energy security* more generally, although one may note that the overall energy security discourse has more to do with the EU relationship covered above. He reminded his interviewers that it was Russia that decided to put this issue on the G8 agenda and that energy security had to take into account not just the concerns consumer countries but also positions of producing and transit countries. In terms of price setting, he downplayed international organisations (like OPEC) as models and instead called for new mechanisms based on consultations between the main producer, consumer and transit countries. He added that the same proposal was made by Russia at the St Petersburg summit and that Russian future energy policy was to be based on this position.<sup>20</sup>

While Medvedev seems to have the lead in coordinating with the EU, he has also been the most active in speaking about *energy relations with non-European actors*, most notably Venezuela and Asia.. During his press conference with the Venezuelan president Hugo Chavez, Medvedev stated that the energy sector provided Russia and Venezuela with ‘mutual and very substantial possibilities’ for cooperation. The agreements signed during this visit between Gazprom, Lukoil, TNK-BP, and the Venezuelan corporation, PDVSA are to lay the foundation for serious large-scale investment and for developing cooperation. Medvedev cautiously emphasised that this ‘cooperation is not aimed against anyone’, but is mutually beneficial and in the interests of the Russian and Venezuelan peoples.<sup>21</sup>

At his meeting with members of the Valdai Club on 12 September, Medvedev discussed the importance of energy in cooperation with Asia, describing the Asian direction as a promising one for Russia but underlining that this cooperation will not be developed at

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<sup>18</sup> Kremlin.ru, Press Conference following the G8 Summit, July 9, 2008.

<sup>19</sup> Kremlin.ru, Press Conference following the G8 Summit, July 9, 2008.

<sup>20</sup> Kremlin.ru, July 3, 2008 Interview with journalists from the G8 countries. Recorded on July 1. See also Kremlin.ru, Answers to Journalists’ Questions after a Working Meeting at the G8 Summit, July 8, 2008.

<sup>21</sup> Kremlin.ru, Joint Press Conference following Talks with President of Venezuela Hugo Chavez, July 22, 2008.

the expense of relations with Europe, and relations with the western world. Russia's energy cooperation with Asia was thus to help ensure more stability in the international system and to address the challenge of diversification from the point of view of an energy producer. At the same meeting Medvedev also said that he sometimes finds it quite amusing when he reads that there is not enough Russian gas to supply even the Europeans. He disagreed with this opinion, underlined that Russia is the biggest exporter of gas in the world and added that Russia would develop new deposits if there is a big market in the East for that gas.<sup>22</sup> Clearly the message here is that development of further energy relations in Asia will not come at the expense of European consumers.<sup>23</sup>

Continuing to supply existing and new consumers will necessitate Russia *developing new oil and gas provinces*, as existing fields become depleted. Medvedev spoke directly to this question at a September meeting of the Russian Security Council, with particular focus on the Arctic region, both onshore and offshore. Medvedev stated that 'this region accounts for around 20 percent of Russia's gross domestic product and 22 percent of our national exports' already in that it is home to major oil and gas producing areas such as the West-Siberian, Timan-Pechora and East-Siberian fields. He added that experts estimate that the Arctic continental shelf could contain around a quarter of the world's hydrocarbon resources and made clear that 'use of these energy resources, these resources, is the guarantee of Russia's overall security and energy security'.<sup>24</sup>

One could argue that Medvedev is the leading Russian actor with the most detailed statements on a wide range of topics relating to energy. In particular, he seems responsible for the intersection of energy and foreign policy and the question of energy cooperation and security. In relation to President Putin, he had less to say on the issue of opening up for further competition within the energy sector domestically, which comes as a surprise given his 'liberal' credentials. One could say that Medvedev's departure from his predecessor is in his 'lawyerly' emphasis on due process and rule of law, not in envisioning a decreased role for the state in the energy sector.

### Shuvalov and Kudrin on energy

Moving onto the economic sphere, we find that First Deputy Prime Minister Igor Shuvalov and Finance Minister and Deputy Prime Minister Aleksei Kudrin, make fewer statements on a broad range of energy issues. Rather, they rather play specific roles in managing Russia's overall energy relations and trajectory.

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<sup>22</sup> Kremlin.ru, Transcript of the Meeting with the Participants in the International Club Valdai, September 12, 2008.

<sup>23</sup> This is backed up by the geography of Russia's energy resources. Fields in the Far East and Eastern Siberia that could provide energy to China and other Asian states are located far from the pipeline infrastructure that supplies Europe and consequently would not be cost-effective as exports towards the West.

<sup>24</sup> Kremlin.ru, Speech at Meeting of the Russian Security Council on Protecting Russia's National Interests in the Arctic, September 17, 2008.

*Igor Shuvalov* plays an important part in shaping Russia's economic strategy and in managing the overall relationship to European consumers. In his speech on 10 June that was published by *Rossiiskaia Gazeta* on 11 June 2008<sup>25</sup> Shuvalov presented what he saw as the five main challenges faced by Russian economy, including dependence on energy resources and the state's determination to expand its influence in the economy. When it comes to the problem of Russia's dependence on energy income, Shuvalov's assertion that the Russian government expected oil prices to stay at the level of \$98 per barrel is a clear illustration. In the middle of September crude oil was traded at the price of \$89 per barrel<sup>26</sup> and in the middle of October the oil price went even further down, under the magic line of \$70 per barrel.<sup>27</sup>

It seems, however, that Shuvalov's responsibilities involve not only coping with falling oil prices but also with the side effects of the other Russian leaders' actions. He played a crucial role in calming down the market after Putin's attack on Mechel, and again in the weeks after the Russian intervention in Georgia. Shuvalov seems to be today one of the informal leaders of the liberal wing in the Russian government and tries to limit the collateral damage to Russia's relations with the West, including Russia's most important Western energy customers. For example, in September of this year, he gave an interview in *Vedomosti*, in which he said that Russia accepted Western values and denied that Russia harboured any imperial ambitions or isolationist tendencies, although it had its own trajectory. He also said that Russia could not be blamed for high prices on fuel and would never use energy as a weapon, as Western states fear. Shuvalov said that it was strange for him to hear these fears, even, as Russia's stance is rigorous, that every drop, every cubic meter should reach the consumer.<sup>28</sup>

In June 2008, Finance Minister *Aleksei Kudrin* identified some issues that posed challenges for Russia's further economic development. He said that Russia should implement new technologies not only in industry, which had to become more innovative, but also in the management of the economy. He, however, was aware of the fact that changing mentalities was a difficult task and 'change of mentalities of the old Soviet and post-Soviet period for a more open liberal approach is still going on with us'.<sup>29</sup> This was also probably the case in the Russian energy sector that has been the locomotive of Russia's economic rebound but not necessarily leader of innovation.

In June of this year, Kudrin expressed view that Russia should not fear decline in the price of oil as this would not have a significant impact on the Russian budget, adding that, in contrast to Shuvalov's statement above, the budget would not have a deficit at a price

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<sup>25</sup> A summary of Shuvalov's speech was published in *Rossiiskaia Gazeta*, June 11, 2008.

<sup>26</sup> Russia Profile [www.russiaprofile.org](http://www.russiaprofile.org) September 17, 2008 A Bad Time for Benevolence Amid the Worst Financial Crisis in Years, Russia Earmarks Half a Billion Dollars to South Ossetia By Dmitry Babich

<sup>27</sup> <http://lenta.ru/news/2008/10/16/oil/>

<sup>28</sup> BusinessNewEurope, September 5, 2008 "We accept your values" says Shuvalov to West

<sup>29</sup> New Answers To Globalisation Challenges Needed – Kudrin St. Petersburg, June 7 (Itar-Tass)

of \$55 per barrel.<sup>30</sup> However, when he presented long-term assessment of the development in the Russian economy until 2023, he had to admit that the increasing shortage of money coming from sales of oil and gas and by the changing demographic situation of the country were going to pose a problem. According to Kudrin's June 2008 assessment Russian budget may face deficit already in 2014 and the main challenge in the 15 years to come will be caused by the decrease in oil and gas incomes for the state due to lower global prices for those commodities and new tax regime designed to encourage new field development. Kudrin predicted that the share of gas production in Russian GDP will by 2012 fall by 28 per cent, and the share of oil production – by 7 per cent. While in 2007 the oil and gas sector represented 8.8 per cent of the GDP, this share will decrease to 5.7 per cent in 2012 and to and to only 3.1 per cent in 2023.<sup>31</sup> When on 8 October, Kudrin pointed out that oil and gas revenues currently make up 50% of federal budget revenues, and noted that this proportion will start to gradually decline, regardless of oil prices. He added that only raising labour productivity can further economic growth in Russia and that the time of easy budget money coming from oil and gas sector was definitely over.<sup>32</sup>

### Sechin on energy

Studying Sechin's statements – and actions – is important because he is believed to be the grey eminence in Putin's government and has been made responsible for the country's energy policy. He has also shown in the past – as was the case with the dismantling of Yukos and strengthening of Rosneft – the ability to translate his political influence into effective action. Sechin is believed to advocate the strengthening of the state's role in the economy and has shown willingness to confront liberals in the government. For example, his relations with Kudrin are believed to be especially tense due to his alleged role in the arrest of Kudrin's deputy minister Sergei Storchak.

During his first months in charge of Russian energy policy, Sechin has focused on several aspects. The most important issues he addressed were *the creation of better framework conditions for companies operating in the Russian energy sector*, especially Russian state owned companies, and *expansion of the Russian energy sector* and Russian energy interests abroad. He has been actively trying to help energy producers address problems with maintaining the current level of production. Sechin is believed be playing an important part in drawing new legislation on taxation holidays for those who were to invest in new fields and activities aimed at production increase.<sup>33</sup> He was also directly involved in settling the dispute between the British and the Russian shareholders in TNK-BP by making the Russian state an arbiter in a dispute that involved private owners.<sup>34</sup>

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<sup>30</sup> Interfax, June 16, 2008.

<sup>31</sup> Rossiiskaia Gazeta, August 18, 2008

<sup>32</sup> Vremya Novostei nr. 186, October 8, 2008 Long-Term Commitments. Russian government launches comprehensive market support plan

<sup>33</sup> Reuters. September 5, 2008.

<sup>34</sup> Wall Street Journal June 6, 2008. Kremlin Seeks TNK-BP Détente. By Gregory L. White and Guy Chazan

In July 2008 Sechin presented his views on which companies should be allowed to develop energy resources on the Russian continental shelf. In his opinion only Russian companies that are controlled by the Russian government and with at least five years experience from working under such conditions could be involved, making only Gazprom and Rosneft eligible.<sup>35</sup> The fact that both Rosneft and Gazprom were included could be interpreted as a balancing act and a sign that Sechin was willing to respect interests of Gazprom despite previous grievances. However, Sechin also played a central part in trying to make Gazprom give access to its pipeline network to other oil and gas companies to make them able to transport their gas to customers.<sup>36</sup> This move, supported by Putin, was seen as Sechin's intrusion into what could be interpreted as Dmitrii Medvedev's and Aleksey Miller's sphere of energy interests.

When the financial crisis began to cause problems for the Russian energy companies, Sechin helped them get additional funding. He met with the leadership of the companies that were hardest hit on 11 October and promised to allot them \$9 billion to cover their debts to Western banks for the next nine months. Not surprisingly, it was Rosneft that was to receive the most generous state support (USD 4.2 billion), while other companies were promised much less (Lukoil USD 2 billion, TNK-BP USD 1.8 billion, and Gazprom Neft USD 1 billion).<sup>37</sup> On 23 October Sechin was quoted as saying that the Russian authorities were willing to consider introduction of lower taxes on the export of oil, reminding the companies that the taxes had been already lowered in September.<sup>38</sup> He showed interest in reasserting the state's role in the sector when he got involved in the dispute between producers of kerosene and air companies on the price of kerosene<sup>39</sup> ordering even directly the producers to lower their price and accusing them of predatory behaviour.<sup>40</sup> Also Sechin's proposal on the construction of a big oil processing plant not linked with any major oil producer could be seen as an attempt at limiting the role of the big oil companies in Russia, giving more opportunities to smaller producers and increasing in that way competition on the Russian domestic market.<sup>41</sup>

It was, however, in the external arena that Sechin played the most prominent role. He was directly involved in several rounds of negotiations with Russia's foreign cooperation partners and his most visible successes were expanding Russia's energy presence in Latin

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<sup>35</sup> Prime Tass and AP, 18 July 2008.

<sup>36</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=f386d49f-21d6-4591-8cd3-ffd8c5c479e5&docsid=909849> and <http://lenta.ru/news/2008/07/07/pipe/>

<sup>37</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=d61db576-e6f5-4845-adee-5674b682c28f&docsid=1040606>

<sup>38</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=4cce1bb9-153d-47ba-ba85-b38328e465eb&docsid=1045836>, <http://www.lenta.ru/news/2008/11/27/taxation/>

<sup>39</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=c1745708-fbb1-4c36-9f1a-e584e29311bf&docsid=1044882>

<sup>40</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=8a2dcd4b-3a2e-42cf-8efa-1f2a5919dee8&docsid=908959>, <http://pda.lenta.ru/news/2008/07/04/sechin/>

<sup>41</sup> <http://pda.lenta.ru/news/2008/07/10/npz/>

America which he visited twice in the second half of 2008,<sup>42</sup> the signing of an agreement on energy cooperation with China on 28 October 2008<sup>43</sup> and increasing the scope of Russian cooperation with OPEC.<sup>44</sup> Although he ruled out that Russia was to lower its oil production in order to stop the fall in oil price, he warned that Russia was interested in coordinating its efforts with OPEC and could take some measures – like the creation of what he labelled strategic oil reserves – in order to be able to influence oil prices in amore efficient manner.<sup>45</sup> According to various sources it was also Sechin’s idea to order Transneft to take over Oman’s shares in the KTK pipeline from Kazakhstan to Novorossiisk to increase Russian control over this important transport route.<sup>46</sup>

When it comes to Russia’s energy cooperation with the Western partners Sechin has been sending rather mixed signals. He has signalled that Russia’s decision to cut supplies of oil to Lithuanian refinery in Mazeikiu was indeed politically motivated and that Lithuania could not expect to get special treatment and had to compete with others if it wanted to secure oil supplies. He underlined that it was Russia that owned its resources and that it was up to Russia to decide whom to supply with oil and how.<sup>47</sup> This statement could be interpreted as a clear manifestation of the state driven resource nationalism. However, on the other hand, Sechin has also been reassuring the West by saying that Russian energy companies should not be feared because they are involved in the same markets and are fulfilling all their contractual obligations.

### Summing up

When looking at statements on energy made by Russian leadership one has to bear in mind that we have to do with at least two types of actors – those who could be described as decision makers and those are merely decision takers. Putin and Medvedev seem to belong to the first category, while it is more adequate to describe Shuvalov and Kudrin as belonging to the second one. Sechin seems to be a special case in that context. When he was appointed deputy prime minister with responsibility for energy policy his role was described by pundit Stanislav Belkovski in the following manner: ‘Shuvalov and Zubkov will address day-to-day affairs, and Putin and Sechin will dedicate themselves to mega-projects.’<sup>48</sup> This may mean that Sechin should be classified as belonging to the category of policy makers rather than policy takers.

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<sup>42</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=54efd681-e3ec-45a8-b820-8204c9ed2109&docsid=1027436>

<sup>43</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=7613e403-586d-4369-a7d1-97fd68f3db36&docsid=1048913>

<sup>44</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=4f4a4456-0f9b-440f-88f8-2070994a89e1&docsid=1023903>

<sup>45</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=9ff3f615-ad26-4ec8-a226-1a4deca5583a&docsid=1045918>

<sup>46</sup> <http://www.kommersant.ru/doc.aspx?fromsearch=019ceed1-41b5-4cef-9625-9ea90b4085db&docsid=908594>

<sup>47</sup> Kommersant May 15, 2008 Vladimir Putin Opens a New Terminal By Andrey Kolesnikov

<sup>48</sup> Medvedev, Putin Steer Clear Of Kremlin-Cabinet Competition Moscow, May 13 (Itar-Tass)

While decision makers decide on what should be the course taken by Russia, decision takers have the responsibility for translating these ideas into political action under given domestic and international circumstances. While the first group has a tendency to present what should be done, the second one seems to be most preoccupied with what could be done all structural factors taken into consideration. The outcome depends, however, not only on what do key actors identify as challenges, problems and opportunities, but also on a number of structural factors that they have only limited capability to influence. One of such a structural factor is the price of oil and gas on the global markets; another is the actions taken by other actors both in and outside Russia.

The statements analysed above reveal that there is both uncertainty and disagreement both over time and between these key actors as to what kind of oil prices the Russian budget could tolerate, although the idea that economy must become more innovative and diversified seems to be a clear point of convergence. As the table below shows the four key actors seem to focus on various aspects of energy policy and this diversification of views on what poses the main threats and problems and how Russia can square its energy circle may affect the process of designing and implementation of the country's viable energy strategy that is to be realized in the years to come.

<i>Issue</i>	<b>Putin</b>	<b>Medvedev</b>	<b>Shuvalov</b>	<b>Kudrin</b>	<b>Sechin</b>
<i>Improving energy efficiency</i>	X	X			
<i>Overdependence on oil and gas</i>	X	X	X	X	
<i>Need for innovation</i>	X	X	X	X	X
<i>New tax regime</i>	X	X	X	X	X
<i>Greater competition</i>	X				X
<i>Better climate for business</i>		X	X		
<i>Comprehensive approach to energy security</i>	X	X			
<i>Russia's reliability as energy supplier</i>		X	X		
<i>Geographical diversification of supplies</i>	X	X			
<i>Geographical expansion of the Russian TEK</i>					X

### ***Key strategic policy documents on energy***

Having examined key post-election statements of energy actors in the Putin-Medvedev team and pointed to some key components and changes, the extent to which this post-election energy discourse resonates with key strategic documents produced recently by the state is taken up in this section. In this way, we hope to measure how robust particular, key statements highlighted above are. Do they match up with published strategic documents that, as a result of long series of drafting and discussion, encompass a level of consensus? By pinpointing also which statements do not necessarily have a well-developed institutional 'home', but at the same time are articulated by central actors, nascent discourses and new directions that may gain importance in the coming years can

be identified. The three recent strategies addressed are the Ministry of Economic Development (MED) *Concept of Long-term Socioeconomic Growth of the Russian Federation*, the Ministry of Energy's draft update of Russia's 2003 energy strategy, *Concept for a Russian Energy Strategy in the period to 2030* and the Ministry of Foreign Affairs *Foreign Policy Concept of the Russian Federation*.

Of course, it should be kept in mind that there is a difference between thinking strategically and actually realizing strategic action. Are these strategies just wishful thinking or can they be implemented? Overall, the extent to which Russia's natural resource policy is consolidated remains an open question. On the other hand, many Russian actors involved in this political-commercial milieu seem to recognize the importance of creating stable rules for the game. In any case, strategic documents have a value in that they externalize key perceptions and ideal courses for action of the Russian government and, as consensus documents that go through multiple levels of government for revision and discussion, it can be argued that they represent, to some extent, mainstream thinking on the topic.

#### Concept of Long-term Socioeconomic Growth of the Russian Federation<sup>49</sup>

##### *Overall aims and structure*

The Concept of Long-term Socioeconomic Growth of the Russian Federation [hereafter Concept] was published in August 2008. While the aim here is to pull out points where the energy complex is mentioned explicitly, some of the broader points raised by the proposal are worth considering. It's also useful to keep in mind that the Concept is contested. Minister of Finance Aleksei Kudrin is preparing his own 2023 financial plan with more conservative estimates than those included in the Concept (for example contradicting MED's optimistic assumptions about 2,700 USD per capita income by 2020).<sup>50</sup>

The central argument of the Concept is that the Russian economy is too dependent on energy exports and, for Russia to become a global economic power, Russia must move toward innovation-based development. This corresponds well with findings from a study of pre-Duma election political debate, in which energy factored in primarily when speaking about energy security and the need for economic diversification.<sup>51</sup> The Concept emphasizes the need to innovate and to build upon Russia's human capital to develop an economy less reliant on the vagaries of natural resource export markets. The document

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<sup>49</sup> Ministry of Economic Development. August 2008. Kontseptsiaia dologosrochnogo sotsial'no-ekonomicheskogo razvitiia Rossiiskoi Federatsii [Concept for Long-term Social and Economic Growth of the Russian Federation]. Moscow.

<sup>50</sup> Andrew C. Kuchins, Amy Beavin and Anna Bryndza. July 2008. Russia's 2020 Strategic Economic Goals and the Role of International Integration. CSIS/IFRI Report.

<sup>51</sup> Blakkisrud, Helge, Jakub M. Godzimirski and Elana Wilson Rowe (2007) *Energy in Russian Politics: Tracing emerging medium-term trends*, Report, OED StatoilHydro Russia Project.

includes chapters on the development of human capital, foreign policy, economics and competitiveness.

The path to innovation in the Russian economy is described as achievable within two periods – 2008-2012 and 2012-2020 (p. 22-29). The first phase is based on realizing and increasing the global competitiveness of sectors where the Russian economy has traditionally been successful, including energy, transport, agriculture and processing of natural resources (p. 22). The Concept also notes that, in order to increase the global competitiveness of traditional sectors, Russia must ‘complete large scale projects in the area of extraction, processing and transports of petroleum, oriented towards the support of internal demand and the diversification of exports’ (p. 24). That the completion of new large scale oil and gas projects is taken as a key component for the next four years suggests that the Concept timelines are less than realistic. By 2013-2020, Russia is expected to be achieving a transition to a new diversified economic base rooted in information technology, biotechnology and nanotechnology (p. 25).

The Concept also outlines a number of existing barriers to achieving the goals outlined, primarily to do with the business environment in Russia, that are of direct relevance to the energy sector. These include: 1) high risks associated with business activity in Russia, such as corruption and administrative barriers, problematic property rights, poorly developed corporate culture; 2) lack of competition in a number of markets that creates little stimulus for competitiveness; and 3) lack of effective government steering engendering low levels of trust. The need to improve the investment climate through better enforcement of contract obligations and overall strengthening of the rule of law is also highlighted. It is noteworthy the level of forthrightness and clarity evidenced here about government shortcomings and problems that have cropped up in the business sector, often due to political intervention. Whether or not there is the capacity and the will to address these problems remains, however, another question.

### *Energy*

The development of energy and energy supply infrastructure is addressed explicitly at several points in the Concept and the need for further growth in this sector (on the level of 1.9-2% per year) is stated (p. 127). The document notes that the government’s goal in the energy complex is to develop further the resource base, transportation infrastructure, and processing capacity, including greater levels of value-added processing (p. 127). When it comes to numbers, the Concept’s authors state that by 2020 the extraction of oil should have increased by 500-545 million tons, with 255-265 million tons for export. A similar increase is expected for gas – growing extraction by 2020 to 815-900 bcm with exports growing to 280-330 bcm.

It’s important to note the expectation that oil and gas resources, beyond the financial boon they can be to the economy, are expected to contribute to the overall goal of modernization and then innovation. For example, in speaking about plans for

development of Russia's Northwest (p. 157), the document notes that that the area should plan for and benefit from the growth of oil and gas in the region (presumably offshore) as an impetus for modernization and growth of innovative commercial opportunities in the technology, construction and machine sectors. The idea that the economy needs to be structured so that Russian companies can serve the petroleum sector is mentioned in the Concept, and reiterated again in an attachment to the document (Attachment, p. 154)

Beyond general growth, some more explicit priorities for the sector are then enumerated:

1. realization of promising pipeline projects (e.g. Baltic pipeline systems, Caspian; Nord Stream, Blue Stream, South Stream)
2. stimulation of investment in the development of new fields and transport infrastructure;
3. development of new, robust oil and gas producing regions, including development of the continental shelf;
4. increasing the effectiveness of the use of energy in the commercial sector;
5. stimulating innovation for new technologies and processing techniques for oil and gas (e.g. the construction of a new LNG plant in Murmansk Oblast) (p. 128).

Tax holidays for oil development in new fields, fields on the continental shelf and those in Russia's internal waters are expected to be in place by 2009 (p. 129) and contribute to meeting these goals.

More specific plans of action remain outlined in an attachment to the 2008 Concept titled, '*Osnovnye parametry prognoza sotsial'no-ekonomicheskogo razvilitia RF na period do 2020-2030 godov [Fundamental Parameters of the Scenario of Socio-Economic Development of the Russian Federation 2020-2030]*.' This document explores in more detail and externalizes some of the assumptions and parameters used in the Concept, which is meant to be a strategic summary for policy makers. This document addresses three issues that should be addressed in further detail: 1) the geography of Russia's oil and gas growth; 2) the continental shelf; and 3) an expanded role for the government in encouraging upstream development.

In addressing challenges facing both the oil and the gas sector, the need to open new petroleum regions is addressed time and time again in light of the decline of older petroleum provinces (p. 162). Interestingly although not unsurprisingly, the decline in production is attributed solely to a decline in the resource base and the quality of exploitable reserves – not to political or economic policy. Key new areas for oil development are specified as being the northern and eastern parts of the country, as well as the continental shelf (p. 162). Under an 'inertia scenario' where the conditions of today continue, the strategy argues that oil production would continue in old oil production regions like Tomsk Oblast, Khanty-Mansi Autonomous Okrug, Timan-Pechora Basin,

Eastern Siberia and Sakha, as well as Sakhalin. By 2015 new oil activity on the Caspian shelf would be expected. Under a slightly more proactive scenario, there would be faster (2010) development of the Caspian shelf and more pipeline activity, including development of the ESPOO and of a Baltic pipeline system (p. 164). Interestingly enough, if the ideal scenario of an innovation-based economy was achieved, the authors argue that this would result in less intensive development of the continental shelf in 2020 than we would see in any of the two previous scenarios (inertia and slightly more proactive) (p. 164).

In the gas complex, the report notes that the amount of reserves located in difficult conditions and complex gas will have increased (p. 170). In terms of 'gas regions', new areas are expected to include Eastern Siberia and the Far East, Yamal Peninsula, Ob and Tazov bays, Stockman and other fields in the Barents Sea. In an inertia scenario, the exploration of Yamal is still seen to occur on the Bovnaneko field (p. 173). In a more positive scenario, the report envisions production of LNG in Murmansk Oblast and production of gas from the Stockman field, as well as intensive development of the Yamal Peninsula. In addition to the need to expanding the geography of Russian gas production, the report also notes that a factor limiting gas extraction, along with the falling productivity of existing major fields, is the lack of access of independents to the unified gas supply system. The attachment document also posits that positive step for the gas sector would require non-discriminatory access to transport infrastructure for independents, as well as reducing the amount of burning of associated gas (p. 171).

The question of the continental shelf is also addressed and its strategic and economic importance to Russia underlined. The continental shelf is seen as possibly covering 20% of Russia's oil production and 40-45% of its gas. Effective development of the continental shelf, however, is described as being delayed by a number of obstacles, including, among others:

1. the absence of a programmatic-goal oriented approach to the decision of complex problems relating to oil and gas resources of the shelf
2. lack of geological/geophysical exploration of the shelf, with advanced geophysical work only having been carried out in the Barents and Okhotsk Seas.

This issue of sufficient geological work is seen as a key problem and the document seems to point to an increased role for the federal government in encouraging upstream activity: 'By 2008-2020, on the basis of the overall economic growth, an increase in the volume of geological assessment work on the subsurface of the RF, carried out to suit government needs and paid for by the federal government is anticipated' (p. 119).

One should note that the role that international companies could potentially play in developing the Russian economy is nowhere mentioned explicitly. However, the frequent calls for improvement of the investment climate, broadly and in the energy sector, can

certainly be understood as a kind of shorthand for addressing this question of foreign involvement.

### Concept for a Russian Energy Strategy in the period to 2030 (draft)<sup>52</sup>

The energy strategy is meant to update and improve some aspects of the 2003 document, which the authors argue that, due to both positive and negative developments requires further development. This new draft version also has a longer time horizon, which the authors argue is necessary to thinking about the future of the Russian energy sector. Factors where the 2003 report expected positive change and growth that has not been realized are highlighted, namely slower than expected growth of reserves, lower than expected investment in the energy complex (p. 5). These developments here are described as ‘negative and even worrying’ from the perspective of the country’s energy security. Key new influences that have changed since the 2003 report including among others: 1) strengthening of the geopolitical position of Russia in global energy security; 2) rapid growth of the Russian economy and greater demand for energy; 3) the strengthening of the role of the state in the energy sector while at the same time preserving market management methods. While building upon the fundamental principles identified in the 2003 version – energy security, energy effectiveness and environmentalism – the report attempts to look at energy within its context (political and economic, domestic and international) and adapt to some of the new conditions outlined above (p. 8). Central points of the strategy overall remain diversification of exports, the export of more highly processed value-added products relying upon technology and innovation (p. 60), and the need to reform Russia’s internal energy market.

Like the MED strategy, the draft energy strategy points throughout to broad problems with the Russian state that limit investment, including the general business environment, as well as specific issues such as inefficient management of key energy complex actors and the tax policies of the government (p. 6). The report also devotes extensive energy to the problem of domestic energy consumption, and the need for reform. Suffice it to say the problem of domestic consumption of gas is seen as an obstacle to export politics and is addressed explicitly. The report repeatedly expresses concern over the slow rates of reforms and the slow development of market conditions for gas consumption within the country (p. 6).

The report examines specifically a number of problems when it comes to ensuring Russia’s energy security:

1. decreasing quality and accessibility of reserves;
2. lack of reinvestment in the development of the sector;
3. dominance of gas in the energy balance of the Russian economy;

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<sup>52</sup> Ministry of Energy, Institute for Energy Strategy. 2007. Kontseptsia energeticheskoi strategii Rossii na period do 2030 g. (proekt).

4. absence of clarity centrally about the functions of federal and regional powers in the energy sphere;
5. lack of policy and legal foundations for supporting energy security (p. 14).

Particularly point 2 – the lack of reinvestment – is seen as the central problem facing the future of the country’s energy security, which is only exacerbated by the growth of domestic demand for fuel and energy resources. It also points how investment is slowing development of key fields, describing the development of ‘promising, most important regions for gas extraction, like Stokman field on the shelf of the Barents and the Yamal Peninsula, is practically not happening’ (p. 19).

The report also identifies three phases of development towards 2030 to achieve the goal of Russian energy security. The first phase, 2006-2010, is described as somewhat of a holding pattern of today’s situation, relying on an increased demand for resources and existing oil and gas revenues to build up capital for large-scale development, which may be initiated during this phase. In the second period 2011-2020, a continued realization of large-scale capital projects is encouraged and the third phase 2021-2030 is meant to be characterized by a growth in GDP and a reduction of the centrality of the energy sector to the economy (p. 33-34). Both the 2020 and 2030 energy strategies all predict this gradual reduction of the centrality of natural resources to the Russian economy, which dovetails with the overall emphasis across the boards in Russian policy circles to encourage a more innovation-based economy. However, both strategies acknowledge the centrality of oil and gas in the medium-term in maintaining economic growth to allow for such a transition.

In terms of the geography of production, this strategy agrees with the injunctions of the MED strategy when it comes to Yamal: ‘without development of gas fields on the Yamal Peninsula the country will not be able to support energy consumers and will not be able to balance its domestic energy use’ (p. 67). It puts the beginning of gas extraction on Yamal as being necessary by 2010-2011. When it comes to Stockman, the report states that it should be extracting gas by 2020, supplying about 15% of the gas extraction of the country (p. 67). The date set here for bringing the Stockman field into production is 7 years later than the oft-quoted goal of 2013, suggesting awareness amongst Russian experts of the unrealistic timelines frequently cited at the political level.

The strategy points to a number of key issues that need to be tackled in both the oil (p. 71-72) and gas sectors (p. 72-73) within Russia to meet the hopes the government has for the sector. The strategy calls for:

1. development and rational use of reserves of oil, expansion of new field development
2. development of economically effective extraction technologies, developing new regions for oil extraction in on the Arctic Shelf, Eastern Siberia and the

Far East and gas regions in Eastern Siberia, the Far East, the Arctic Shelf and on Yamal

3. stopping losses of oil and gas (e.g. spills, burning of associated gas) at all stages of production
4. use of all valuable associated products and increasing value-added processing
5. development of a transport infrastructure to increase effectiveness of export of oil and oil products, diversification of directions of export

### The Foreign Policy Concept of the Russian Federation<sup>53</sup>

In the Ministry of Foreign Affairs' key policy document *The Foreign Policy Concept of the Russian Federation* (approved 12 July 2008) the issue of energy is addressed explicitly in a few points. Overall the concept summarizes the aims and principles underlying Russia's engagement in international affairs, which is argued to be set to increase. At various points in the text, Russia's importance, being partly founded in 'natural and accumulated financial resources', is referred to, although energy is not listed explicitly. The lack of energy-related assertions clearly corresponds with a recent (2006 onwards) toning down of the 'energy superpower discourse' that marked a good deal of Putin's presidency.

Energy resources are taken up specifically in the section looking at international economic and environmental cooperation that include foreign policy involvement. Although specific vectors for cooperation are not mentioned at this point, the concept names the importance of modernizing the fuel and energy industry to 'support its reputation of a responsible partner in the energy markets' including 'strengthening strategic partnership with leading producers of energy resources' as well as with consumers and transit countries (p. 12). The aim is to achieve 'stability of demand and secure transit' (p. 12). Some producing countries that are later named explicitly in terms of energy cooperation include the countries of Latin America (Brazil, Venezuela, and Mexico among others) (p.22). Russia also plans enhancing its interaction with states of the 'Islamic world', with 'priority attention paid to developing mutually beneficial economic cooperation, in particular in the energy sector' (p. 20). It seems that this statement can be best read in light of Russia's cooperation with Iran in building their Bushehr nuclear facility, although the statement is vague enough to encompass any kind of energy cooperation.

One could say that on the conceptual level the economic development and energy concepts summarized above agree on the more general points about problems of economic development and energy, although the MED concept naturally speaks more broadly and glosses the details to a greater extent largely due to its broader topic. The MFA concept is quite different in orientation with energy figuring in only slightly,

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<sup>53</sup> Available at [www.mid.ru](http://www.mid.ru)

although it differs from the other two concepts in tackling some points of energy diplomacy and speaking about particular partners, which neither of the other two strategies takes up.

### ***Conclusions***

The goal of this working paper was to look at how the changing domestic and international circumstances have been influencing Russian approaches to energy. We analyzed the key statements and documents addressing the issue of energy strategy and tried to trace what have been the main ideas shaping Russian approach to energy related issues. While these strategies and statements by key political actors largely line up, there are also some subtle differences and shades of emphasis that may point to both lack of policy coordination/discord and emerging available diverging options for energy policy. When it comes to *how should energy figure into the economy*, we have across the boards agreement on the need to reduce energy overdependence, the importance of addressing depletion of energy resources (for the economy's sake, not out of supply problems) and that the economy must be more innovative and diversified to survive the global economic slowdown. In terms of *what kind of political significance should be assigned to the energy sector*, we see that political actors have worked to erase traces of the political from their energy statements and that on the strategic document level the MED is the most aggressive in making statements about the politics of energy security with the MFA making clear statements about new partners for a kind of energy diplomacy. The Ministry of Energy seems, like key political actors, more assiduous in tackling energy as a strategic economic problem requiring political action and in distancing itself from any notions of an externally oriented energy politics. Certainly questions to do with the politics of energy cooperation (e.g. EU interdependence and vectors for export) are dealt with by political actors, rather than concretized in policy documents. This suggests that the politicized discourse on energy cooperation remains, perhaps purposefully, more fluid.

One of the aims of this working paper is to measure the relative robustness of ideas in the policy arena to map the marketplace of energy policy ideas. Our analysis of this is based on the assumption that ideas expressed by a variety of actors and recorded in a number of policy documents are likely to enjoy consensus and will be implemented, however haltingly. Ideas mentioned by just one person or just one document are still interesting in that they may represent a future direction or idea that may become more robust in the medium term.

Interesting, but still more 'frail', ideas include:

- 1) Introducing greater competition in the energy sector. This idea was forwarded most explicitly by Putin and Sechin in calling for Gazprom to open its pipeline network to other actors who burn associated gas simply because they cannot reach consumers. Also Sechin's proposal on the construction of the new big oil processing plant could be seen as a way of limiting the influence of the big energy companies and setting conditions for greater competition. The closest policy document would be that of the Ministry of Energy, which points to the same problem and alludes to the same solution. The MED more generally calls for greater competition throughout the Russian economy. Medvedev seems more

reluctant to introduce change to or reduce the role of the state (and by extension that of state-owned companies like Gazprom) in the energy sector.

2) Positive, pragmatic interdependence. Medvedev has in many ways brought a new discourse on energy cooperation with Europe evidenced above. Referring to ‘greater Europe’ and attempting to provide more positive framings of interdependency and ‘shared’ projects represents a departure from the rather sour relations with the EU that marked the end of the Putin presidency. Medvedev seems to be trying to portray interdependence as a positive fact that implies a level of politics, which may enable Russia to point to and talk about the politics of energy without being accused of ‘politicizing the issue’. Medvedev speaks positive about the pragmatism entering Russia-EU relations in this field, which may be a nod to the EU easing up on its push for Russia to sign the energy charter and engaging with Russia on energy issues instead on a variety of newly framed issues.

3) Latin America. Energy diplomacy/relations with Latin America are mentioned only by Medvedev in one statement and in the foreign policy concept. It’s difficult to say where this new, still somewhat shaky emphasis will lead, but clearly the region is newly stylish in Russian political circles as Sechin’s efforts in that region clearly show.

Of particular relevance to policy makers and energy actors in Norway is of course tracing the tensions within point one, on the issue of state control versus greater competition and more openness. It could be that both could be realized – state control could remain high with competition being a greater component of the established system – and in any system where the number of key energy actors is seen as a positive there is more space for foreign capital and actors and more relevant partners from which to choose.

Amongst the robust policy discourses, we have:

1) Energy efficiency. Putin, Medvedev, the Ministry of Energy and the MED are unanimous and quite strident in their insistence on reforming the domestic energy consumption sector in order to improve energy efficiency of the Russian economy.

2) Reducing dependence on oil and gas. Putin, Medvedev, Shuvalov as well as the MED take this up explicitly, pointing to the need for the economy to become more diverse, largely through creating better conditions for business and investment. Unsurprisingly, the Ministry of Energy does not call for this.

3) Innovation. Innovation is related to the point above although this innovation can also occur within the energy sector (for example, higher levels of value-added processing; building up an energy relevant construction/technology sector). Putin, Medvedev and Kudrin as well as the MED and Ministry of Energy weigh in on this point.

4) Better climate for business is called for under a number of names (rule of law, creating a good environment for investment) and brought up by Kudrin and the strategic documents of the economic development and industry ministries.

5) Plans for tax holidays and the need to develop new oil and gas provinces are also mentioned by a broad range of actors (Putin, Medvedev, MED, Ministry of Energy).

6) Energy security. The notion of energy security that Russia forwards – the idea that it involves the security of producers, transit countries and consumers – is tackled primarily by Medvedev on the actor level, and by the Ministry of Energy and the MFA on the institutional level.

Although these ideas enjoy broad political support, the weakness of the Russian government in implementing policy may hinder the realization of these policies in practice. At the same time, measures such as tax breaks and a new tax regime as well as the finalization of legislation on strategic resources suggest that some progress is being made in making explicit and public the ‘rules of the game’. That the number of robustly agreed upon ideas clearly outweighs more ‘fragile’ new additions suggests that the boundaries and contents of the marketplace of energy-related ideas in Russia is becoming more consolidated across a spectrum of actors. The broad points of agreement across specific key actors and central policy documents also suggests that these positions and discourses are less dependent on particular persons as advocates and may be becoming anchored in the Russian political system on a more institutionalised level.

## Appendix

**Table 1.**

*Top 10 in September 2008 and Russian energy and economy officials on Russian political power map March - September 2008.*

Name	Rank 03	Rank 04	Rank 05	Rank 06	Rank 07	Rank 08	Rank 09
Putin, V.	1	1	1	1	1	1	1
Medvedev, D.	2	2	2	2	2	2	2
Surkov, V.	3	3	5-6	4	3	3	3
Kudrin, A.	6	5	7	6	5	5	4
Shuvalov, I.	17	14	3	3	4	7	5
Sechin, I.	4	6	4	5	6	4	6
Lavrov, S.	35-37	39	32-33	38	26	14	7
Sobyanin, S.	5	4	5-6	8	9	9	8
Serdyukov, A.	38	33	18-19	15	21	13	9
Naryshkin, S.	25	26-27	8	7	7	6	10
Miller, A.	9	8-9	10	10	11	8	12
Nabiullina, E.	44-45	35-37	34-35	36-37	34-36	25	19
Alekperov, V.	29	34	25-26	39	27	31	25
Zhukov, A.	52	42	41	54-56	44	46	29
Timchenko, G.	19	23	23-24	23	24-25	28	36
Bogdanchikov, S.	47-48	35-37	39-40	45	41	43	37
Zubkov, V.	11	11	12	20-22	32	48-49	38
Kirienko, S.	55	69	51-52	48	51	53	44
Trutnev, Y.	60	54-55	42-43	49	48	44	48
Shmatko S.	-	-	-	81-82	64	84	83

In table above, the political power trajectories of key actors in Russian political, economic and energy sectors in the period between presidential elections in March 2008 and the end of September are traced. The table contains information on the ten most influential political actors in September 2008 and the place of economic officials and energy actors on the Russian reputational power map as seen by Russian experts and presented in the Top Hundred Russian Politicians rankings published in *Nezavisimaia Gazeta* between March and October 2008.