

## CHAPTER 3

### ENERGY SECURITY

With petroleum price surging upwards in the new millennium, energy security has become a major foreign policy apparatus at Russia's disposal. In 2005, Russia was the second largest producer of crude oil and the world's largest producer and exporter of natural gas<sup>1</sup>. The magnitude of the so called "petrodollar" has reinvigorated the Russian economy and helped liberate Russia from Western-oriented economic reform. Furthermore, given the energy dependency of Europe (in terms of energy supply) and Central Asia (in terms of energy transportation) on Moscow, Russia has undoubtedly seized the opportunity to expand its influence in the previous Soviet states and even in Western Europe. Domestically, profits from energy have provided Putin with a source of income to centralize his political power in accordance with his policy of "managed democracy".<sup>2</sup>

As for the United States, the constant chaos of the Middle East, America's primary source of energy, compelled Washington to seek for a more stable energy supply elsewhere. The role of the United States in securing access to petroleum energy in

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<sup>1</sup> Gareth M. Winrow, "Energy Security in the Black Sea-Caspian Region," *Perception* (Autumn 2005): 86.

<sup>2</sup> Thomas Freidman made an assumption that oil wealth impedes democracy. The Oil-backed regime is likely to be less dependent on taxation, hence, less sensitized to public demand. Also, such regime would be provided resources to be spent in repressing its citizen, such as police, internal security, and intelligence forces. (see Thomas L. Friedman, "The First Law of Petropolitics," *Foreign Policy* (May/June 2006): 31-32.)

Central Asia and Eastern Europe has brought about an American presence into the former Russian sphere of influence.

Energy security has gradually drawn the United States and Russia towards collision. The campaigns of both countries to secure their energy supplies from Central Asia and Eastern Europe have spilled over into the realms of international politics as they attempt to exert themselves in the region. With both sides currently exercising caution, the issue has yet to bring about any serious confrontation. Nevertheless, the ongoing instigation and perceived competition foreshadows what may come.

#### **A. Russia: Energy as a political instrument**

In implementing its policies, Russia has used its energy reserves to mobilize political, economic, and geopolitical power to restore its major power status. In doing so, Russian authorities have monopolized the energy-relation sector through an energy nationalization process. Such a monopoly rendered Russia the power to dictate energy prices in Eastern and Western Europe. Furthermore, the pipeline structure that has been in place since the Cold War period has given Russia dominance over landlocked Central Asia's energy exportation.

The process of energy nationalization began with the bankruptcy of Yukos, a Russia major oil company, over allegations of tax evasion by Mikhail Khodorkosky, chairman of Yukos and a political opponent who occasionally made public statements

against Putin. The assets of Yukos were auctioned off and primarily won by the Rosneft, a national petroleum company.<sup>3</sup>

In the natural gas sector, Gazprom, another national energy company, incrementally took over public energy businesses in Russia. At the time, the company was run by Dmitri Medvedev, the former deputy prime minister and a strong Putin supporter. It currently owns over 30% of the global natural gas reserve and produces 90% of the nation's gas.

Moreover, Russia is endeavoring to reacquire exploration and production concessions from foreign businesses and further limit the role of foreign investors by relegating them to being merely stakeholders and technology providers. For example, consider Russia's effort to purchase back the Shakalin 2 project from Shell, Mitsui, and Mitsubishi.

### **B. Energy Security and the European**

Russia is striving to retain its influence in Eastern Europe through energy. Given the fact that most of the Commonwealth of Independent States (CIS) are dependent on the energy export from Russia at the rate below par, through the pipeline structure stretching all over the Soviet Union since the period of the Cold War, and with no alternative transportation option from other sources due to geographical limitations, Russia has the upper hand in dealing with Eastern Europe.

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<sup>3</sup>Andrew E. Kramer, "Rosneft acquires more Yukos assets," *International Herald Tribune* (3 May 2007), <http://www.ihf.com/articles/2007/05/03/business/yukos.php>.

Russia initially exhibited its new influence over Eastern Europe in 2006. After the Orange revolution heralded the victory of Victor Yushenko, the West-supported presidential candidate, over Victor Yanukovich, the pro-Russian candidate and the former prime minister of Ukraine, Russia tried to force the Ukrainian government to negotiate a new energy contract. Moscow sought a new natural gas deal at a higher price (from \$50 per 1,000 cubic meters of natural gas to \$220 to \$230). After failing to reach an agreement after months of negotiation, Russia cutoff Ukraine's energy supply to force an agreement. After pressure from European countries dependant on energy transported through Ukraine and a compromise by the Ukrainian government, a new more expensive energy deal was signed and natural gas flow from Russia resumed on January 3, 2006.<sup>4</sup> The incident was deemed by many as strengthening Russian influence and corroding Yanukovich's popularity, leading to his party's defeat in parliamentary elections in 2006. The same case of energy intermission was also incurred to Georgia and Moldova, the other two Russia-perceived renegades.

That same year, Russia threatened to stop supplying energy to its ally, the government of Belarus. The threat forced Belarus to accept a new energy deal at a higher price, from \$47 per 1,000 cubic meters to \$105.<sup>5</sup>

Although the periods of energy intermission were brief, the impact of the incidents were significant, causing suffering throughout Europe, further raising concerns over energy dependence in Europe. Since Western Europe is dependent on Russian

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<sup>4</sup> Andrew E. Kramer, "Moscow cuts flow of gas to Ukraine," *International Herald Tribune* (2 January 2006), <http://www.iht.com/articles/2006/01/02/europe/gazpromfp.php>.

<sup>5</sup> Andrew E. Kramer, "Gazprom warns of gas supply disruptions," *International Herald Tribune* (27 December 2006), <http://www.iht.com/articles/2006/12/27/news/belarus.php>.

energy transported through Eastern Europe, the disruption in Ukraine raised concerns over energy continuity in Poland and Hungary whereas the disruption in Belarus raised concerns in Lithuania and Germany.

The apprehension of possible energy discontinuity compelled Europeans to develop ties with Russia not only at the public level but also at the private level. Since most of Europe's energy supply is secured by private companies without a substantive common energy policy, European enterprises strove retain their access to Russian energy by establishing several joint ventures with Gazprom:<sup>6</sup>

- E.ON Ruhrgas of Germany, the only foreign company that has a seat on Gazprom's board, partnered with Gazprom on the North European Gas Pipeline project to transfer natural gas from Russia to Europe without passing through Ukraine. Moreover, the company has a contract to import 20 million cubic meters of natural gas from Gazprom.
- Wintershall of Germany signed a deal to purchase natural gas from Gazprom at the amount of 8 billion cubic meters annually from 2010 to 2030.
- Gaz de France is buying 12 billion cubic meters annually (about 25% of France's national need) from Gazprom from 2003 to 2015.

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<sup>6</sup>Judy Dempsey, "Like it or not, many countries are locked in to Gazprom," *International Herald Tribune* (5 January 2006), <http://www.ihf.com/articles/2006/01/05/business/assess.php>.

- In 1999, Nederlandse Gasunie signed a deal to purchase 8 billion cubic meters of natural gas annually from Gazprom until 2019.
- Italy's Eni, through its subsidiary Snam, will receive up to 28 billion cubic meters of gas per year from Gazprom under a long term contract signed in the mid-1990s which lasts until 2008.
- ÖMV, the Austrian oil and gas company, imports an annual 6.5 billion cubic meters of gas, two-thirds of Austria's demand. The contract was extended in 2004 to last until the end of the decade.
- Finland's leading energy company, Fortum, has signed a contract with Gazprom to import gas until 2014 and has joined a consortium to develop the Shtokman gas field in the Barents Sea.

Furthermore, Gasprom has formed several joint venture projects and concluded contracts taking over the energy pipeline infrastructure from Lithuania to Bulgaria in order to dictate the regional energy transportation system. These developments further exacerbate the energy dependency of Europe on Russia.

### **C. The New Great Game**

The term “Great Game” was coined in order to depict the competition to attain supremacy over Central Asia in the 19<sup>th</sup> century between Russia and Great Britain. Now the battle is being fought again by the United States and Russia to secure access to the petroleum in Central Asia. In both Eastern and Western Europe, the expansion of Russian influence through energy supremacy has not been challenged since most of those countries are seeking to secure their access to the Russian energy supply. However, to a certain extent such expansion has led disguised confrontation over the energy of Central Asia.

Central Asia dominates the world’s remaining energy reserves, containing approximately 17-44 billion barrels of crude oil, more than the total energy reserve of the United States, and has 6,580 billion cubic meters of natural gas reserves.<sup>7</sup> Given the longstanding pipeline structure and landlocked geography, the only exportation route in the region runs through Russia. Nevertheless, the asserted presence of the United States in Central Asia for energy security is shifting this character.

After the Cold War ended, Washington, under President George H.W. Bush, initially became involved in the region through the FREEDOM Support Act in 1991, which was designed to finance democratization in Central Asia. The United States was once again active in this region after the September 11 incident. American troops were sent to fortify military bases in Uzbekistan and Kazakhstan<sup>8</sup> for the war in Afghanistan

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<sup>7</sup> “Energy Security,” 86.

<sup>8</sup> Uzbekistan was the only Central Asian state that joined the “coalition of the willing” in February-March 2003 that endorsed prospective U.S.-led coalition military operations in Iraq

and to pursue cooperation from other countries, such as seeking airspace rights from all of the Central Asian countries to facilitate military operations in Afghanistan. Initially, China and Russia were supportive of the movement as they both shared similar concerns in the cases of Chechnya and Xingjian province, respectively.<sup>9</sup> Such cooperation from Uzbekistan, Kazakhstan, and Turkmenistan would have seemed impossible prior to September 11. However, insistence from Washington to maintain its military posts in those states even after the end of the war drew strong opposition from Moscow and other pro-Russia Central Asian countries.

In terms of energy security, the resource-rich Caspian Sea region is of particular interest to a number of states. The United States, Russia, and Iran have all tried to have Caspian oil and gas transported through their territories or through states under their influence. Given the landlocked geography, the energy supplies were required to be transported through Russia's existing pipeline or through a newly constructed pipeline.

The United States proposed the construction of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline, which became operational in June 2006<sup>10</sup>. The complete pipeline transports Caspian crude oil from Azerbaijan through Georgia to Turkey that is then

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(Kazakhstan joined later). Uzbekistan subsequently decided not to send troops to Iraq, but Kazakhstan has deployed some two dozen troops to Iraq who are engaged in de-mining and water purification. Recently, Central Asian populations reportedly have raised increased concerns about the deaths of Muslim civilians in Iraq. (see Jim Nichol, "Central Asia: Regional Developments and Implications for U.S. Interests," *Congressional Research Service Report for Congress* Code RL33456 (updated 14 December 2007), p. 3).

<sup>9</sup> Martha Brill Olcott, "The Great Powers in Central Asia," *Current History* (October 2005): 331.

<sup>10</sup> Various plans to construct pipeline transporting energy from Central Asia have been proposed. However, this chapter will focus on the BTC project as it is "one of the most debated infrastructure projects of the past 50 years". (see Brenda Shaffer, "From Pipedream to Pipeline: A Caspian Success Story," *Current History* (October 2005): 343).

ultimately shipped to the West from a Ceyhan port. Apart from the obvious energy concerns, there were also political considerations that went into the construction of the pipeline.

For Azerbaijan, the primary consideration was its pro-U.S. policy orientation. Furthermore, transportation through Iran was not an option since Tehran had supported Armenia in its war with Azerbaijan over the disputed Nagorno-Karabakh region. Additionally, as a small state, an energy policy alternative that liberated Azerbaijan from transportation dependency on Russia was preferred.<sup>11</sup>

For Georgia, who experienced an energy cutoff just as Ukraine had, there were different considerations. Apart from the fact that Georgia offered a low transit tariff, the pipeline would liberate Georgia from energy dependency on Russia's oil supply.<sup>12</sup>

Because the pipeline stretched in proximity to several unstable regions (Chechnya, South Ossetia, and Abkhazia, and areas in which the PKK were active), the Baku-Tbilisi-Ceyhan oil pipeline was laid underground to eschew disturbances. However, the pumping stations remained susceptible to attack. Azerbaijan, Georgia, and Turkey, therefore, established the Joint Pipeline Security Commission to coordinate their work on protecting the pipeline.<sup>13</sup> To compliment their attempt, the United States supplied and trained the navies of Azerbaijan and Kazakhstan to protect the pipeline and its pumping stations under the "Caspian Guard Initiative", thereby forming "virtual

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<sup>11</sup> Brenda Shaffer, "From Pipedream to Pipeline: A Caspian Success Story," *Current History* (October 2005): 344-345, <http://belfercenter.ksg.harvard.edu/files/shaffercurrenthistoryoct2005.pdf>.

<sup>12</sup> *Ibid.*, 345.

<sup>13</sup> "Energy Security," 90.

bases” which could become operational should a crisis take place.<sup>14</sup> The initiative has set long-term American presence on the ground of securing along with the current American military outpost in the War on Terror, and alliance with the Central Asians.

While the United States endeavored to establish a firm footstep in Central Asia, Russia began to retaliate. In 2002, Putin attempted to form the Eurasian Alliance of Gas Producers with Kazakhstan, Turkmenistan, and Uzbekistan. In 2005, Gazprom concluded a deal with KazMunai, a major natural gas transport company, giving Russia control over the energy transportation of Kazakhstan, Turkmenistan, and Uzbekistan.<sup>15</sup>

Furthermore, Russia utilized the Shanghai Cooperation Organization (SCO) Summit in 2005 to demand the withdrawal of American troops from the region. The demand was echoed by other members of the SCO, namely China, Kazakhstan, Uzbekistan, and Kyrgyzstan.<sup>16</sup> Eventually, the United States had to withdraw from the Karshi-Khanabad in Uzbekistan in 2006.<sup>17</sup>

Given Russia’s vast energy reserves and geopolitical advantage, Moscow was able to dominate the energy market in its immediate region. Moscow first took over its private energy company. The monopolization process then expanded to Europe (in terms of energy importation from Russia) and to Central Asia (in terms of energy exportation through the Soviet-era pipeline). The energy monopoly rendered Russia leverage over its immediate neighbors and the West.

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<sup>14</sup> Ibid.

<sup>15</sup> Ziba Norman, “Russia’s gas weapon,” *International Herald Tribune* (21 December 2005), <http://www.iht.com/articles/2005/12/20/opinion/ednorman.php>.

<sup>16</sup> “The Great Powers,” 331.

<sup>17</sup> Rand Corporation, <http://www.rand.org/commentary/030507UPI.html>.

The United States, however, attached greater importance to the political implications of energy security. Washington had expanded its presence in Central Asia to acquire itself a new energy source, to liberate its allies in the region from Russian influence, and to provide an alternative energy source to Western Europe.

So far, the clash between the U.S. and Russia over energy security has been far from a direct confrontation. The tension from this matter, however, has in part contributed to the erosion of the relationship and provoked more direct conflicts, as in the case of the American missile defense system in Europe.