Russian ambitions in the energy sphere and the global financial crisis
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Russian ambitions in the energy sphere and the global financial crisis

For the time being, the current financial crisis has halted the Russian economic boom. The government is compelled to invest $ 100 billion for the bail-out of the banking system, money that comes from the Kremlin’s foreign-currency reserves totalling $ 600 billion. Currently, capital outflow exceeds the inflow. Having financed their acquisitions with Western money, Russian oligarchs feel the pain too, as credits, due to the liquidity crisis, are not granted anymore. The reform and modernization programme, proposed by Russian president Medvedev earlier this year seems to have been postponed. The state appears to be gaining ground again. If the global price of oil continues to fall, Moscow will not be able to implement the ambitious budget set for 2009. As yet, however, it is too early to issue an obituary to Russia’s economy. Speaking at the “Russia Breakfast” on the implications of the financial crisis for Russian energy policy, Tatiana Mitrova, head of the Centre for International Energy Market Studies at the Energy Research Institute of the Russian Academy of Sciences emphasized that the current condition represents a serious test case for the Russian economic system.

According to Ms Mitrova, the closing down of international credit markets for Russian enterprises represents the greatest problem of the country’s private economy. Indeed, next to the rents from the energy sector, it were foreign credits that pushed Russia’s “economic miracle”. Due to the financial crisis, many investment projects were decelerated or even halted – also in Russia’s most sensible sphere, the energy sector. Because of a global decline in economic activity and the ensuing contraction of demand for raw materials, moreover, the price of oil dropped below $ 70 per barrel.

The leading Russian energy companies lack the financial resources necessary for future investments and modernization projects which are profitable only with prices above $ 100 per barrel. In this regard, Ms Mitrova reported of Gazprom’s halt in building the strategic Altai pipeline to China. This decision, however, was taken because China was not willing to pay the minimum price that was necessary to render the pipeline economically viable. The progress of other projects in the energy sphere, notably the development of the Shtokman fields in the Barents Sea and Eastern Siberia will possibly be delayed too, with respective implications for Nord-Stream. If the oil price remains low, moreover, there will be implications for the 2009 budget.

Change of Strategy at Gazprom

The financial crisis will continue to halt Gazprom’s growth. In the last years, the strategy of the gas monopoly has developed in the right direction: the focus was laid on the maximization of profits, not the quantity of production. Ms Mitrova reminded the audience of the company’s investment strategy, announced in April 2008: to spend less money for prestigious projects such as the acquisition of media or investments abroad, and more for the development of natural mineral deposits and the modernization of existing in-

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Since the war in Georgia, the political will of EU countries to build a gas pipeline that bypasses the Russian pipeline system has increased. One particularly positive piece of information for the Europeans is the assessment given by an independent British company regarding the reserves of the Turkmen Yolotan and Yashlar fields. According to the experts, these fields are among the largest in the world and could easily fill the Sino-Turkmen pipeline that is currently in construction as well as a (potential) European one. Not surprisingly, the upcoming visit by Turkmen president Gurbanguly Berdymuhammedov to Germany, Brussels, and the US is expected with excitement.

Oil and Gas OPEC

The visit by Russian deputy Prime Minister Igor Sechin to an OPEC summit in this year’s early September aroused pronounced attention. According to Ms Mitrova, thus far, Russia fared well without the OPEC, taking advantage of the latter’s pricing policy without having to succumb to its quota. However, as quotas appear to be losing their impact on the price of crude and the fundamentals for price creation cease to be clear, Russia, in preparation for energy crises, seeks rapprochement with OPEC. Should the oil prices drop to an alarming level, Russia is likely to act in accord with the other core oil exporting countries. The idea of a gas-OPEC is similar and could potentially be agreed upon by Russia, Iran, and Qatar in mid-November 2008. Thus, Russia would have strengthened its position as an energy supplier vis-à-vis the energy-importing countries.

Chance for Cooperation

Against the background of the financial crisis and the mutual dependence in the realm of energy, one would expect a more pragmatic approach to cooperation on the part of Russia and the EU. De-politicization of energy relations as well as a more realistic assessment of the potential strategic partnership are needed if the upcoming negotiations on the Partnership and Cooperation Agreement (PCA) between both entities are to be successful. As for other CIS countries, the financial crisis has hurt the resource poor ones such as Belarus, Ukraine, and Georgia, in particular. The World Bank and the IMF have promised some credit injections, Belarus will borrow money from these institutions as well as Moscow. The financial crisis has uncovered the extent of global inter-linkage and weakness of most states, among them Russia, and requires collective solutions. The US and EU have agreed upon a series of collective summits and consultations to be held in the next weeks. They would be well advised to include Russia, a member of the G8, into these processes, too.

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Russia’s Energy Strategy and the European Energy Security
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