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**RUSSIAN OIL AND NATURAL GAS: STRATEGIC  
CULTURE AND SECURITY IMPLICATIONS OF EUROPEAN  
DEPENDENCE**

by

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December 2007

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IMPLICATIONS OF EUROPEAN DEPENDENCE**

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## **ABSTRACT**

This study explores the implications for European political and economic stability posed by dependence on Russian oil and natural gas energy sources. The first section looks into the past actions and strategic culture of Russia to determine if there exists a threat that Russia will deny energy resources to European countries for political or economic gain. The second section analyzes the current calculus of Europe's dependence by determining current and estimated future consumption needs and the feasibility of alternative sources of energy. The third section investigates the importance of revenues that Russia receives from consumption of oil and natural gas exports to Europe on their Gross National Product and economic growth for the future. By understanding Russia's strategic culture and the interdependence of European demand and Russian supply, conclusions are made that determine the threat, risk, and circumstances that Russia will deny energy resources to European countries.

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## I. INTRODUCTION

### A. PURPOSE

The purpose of this thesis is to explore the implications for European political and economic stability posed by dependence on Russian oil and natural gas energy sources. There exists an awareness that if Europe is too dependent on Russian oil and gas, then Russia could deny these resources as leverage for political or economic gain. Since the end of World War II in 1945, the United States and many Western Europe countries have tied their respective grand strategies to an enduring transatlantic relationship, formally declared through the North Atlantic Treaty Organization. This transatlantic bargain, enacted through the concepts of mutual aid and self-help that voluntarily limits national sovereignty to act unilaterally without respectful consultation of their allies, is the nominal expense paid by each member in order to reap the benefit of more efficiently pooled economic and military resources used to enhance stability and security in an anarchic world. In the stages of conflict and cooperation that occur prior to war or any use of force there exist steps of crisis management that can halt escalation of conflict as well as contribute to a greater degree of cooperation.

In addition to the security aims of NATO alliance, the European Union and the U.S. share a long tradition of working together to improve energy security. EU-US cooperation is pursued through multilateral mechanisms such as the International Energy Agency and the G8, as well as

through bilateral dialogue. Since Russia has used the denial of energy resources as a strategic weapon against other states, understanding the components of interdependence of European oil and natural gas demand and consumption relative to the Russian oil and natural gas supply is key to formulating a strategic energy policy that may reduce this threat. Additionally, Russia's coercive energy policies are further influenced by a strategic culture that has been shaped by Russia's historical experiences. Comprehending Russia's strategic culture and how it is manifested in shaping Russia energy policies as part of their economic strategy must be taken into account as well. The overall question that this thesis seeks to answer is: What is the risk to Europe, an important ally to the U.S., that Russia may attempt coercive diplomacy by using oil and natural gas as a manipulative tool?

## **B. IMPORTANCE**

This issue is of far reaching importance spanning the highest levels of government, institutions, and economic organizations and will impact diplomacy and cooperation between Russia and European states. This thesis will contribute to understanding the balance of interdependence between Russian supply of oil and natural gas and European consumption. By understanding the extent of interdependence as well as the strengths and weaknesses that each side possesses, U.S. and European policy can be developed that is complementary, coherent, relevant, and effective in countering Russian energy initiatives that pose a risk to economic and political stability. European countries, along with the U.S. fear that when their foreign policies are in



conflict with Russian national interests, Russia will deny energy resources to these countries as a tool to gain leverage in political or economic bargaining. Such had been the case with Ukraine, Belarus, and Georgia recently. Denying energy resources to large European economies could disrupt transportation networks, manufacturing, agriculture, and domestic well being, and lead to fractured political and economic stability.

In response to this environment of increased distrust and new perception of a Russian threat to security in European countries, the European Union requested that NATO fully discuss energy security at NATO's Riga summit in November 2006. Additionally, U.S. governmental organizations have published documents that also condemn using energy as a political weapon of an authoritarian government, and claiming that doing so is a serious security risk.<sup>1</sup> Moreover, on June 8, 2006, the U.S. Senate unanimously approved a bill introduced by Foreign Relations Committee chair, Senator Richard J. Lugar and named the Energy Diplomacy and Security Act of 2006. The bill proclaims that U.S. national interests and security relies heavily on clean, safe, and secure access to oil and gas reserves in other countries.<sup>2</sup> Less than a year ago at the NATO Riga Summit, Senator Lugar expressed his high concern that Russian energy policy was a serious security threat to all alliance members. He strongly urged NATO, in no

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<sup>1</sup> Council on Foreign Relations, "Russia's Wrong Direction: What the United States Can and Should Do." Independent Task Force Report No. 57. John Edwards and Jack Kemp, Chair; Stephen Sestanovich, Project Director, 2006. And, Bernard A. Gelb, "Russian Natural Gas: Regional Dependence." *Congressional Research Service*, January 10, 2007.

<sup>2</sup> Library of Congress Website, "Energy and Diplomacy Security Act of 2006." <http://thomas.loc.gov>, last accessed August 7, 2007.

uncertain terms, to take action within the context of Article 5 and to add energy security to their main aims, objectives, and areas of response. Prior to the meeting and as momentum continued to build, NATO Secretary-General Jaap de Hoop Scheffer offered that "the alliance would be able, if requested, to take up additional tasks, such as boosting energy security for member states."<sup>3</sup> Moreover, NATO Declaration 45, released at the conclusion of the Riga Summit included NATO "supporting a coordinated, international effort to assess risks to energy infrastructures and to promote energy infrastructure security," and "directing the Council in Permanent Session to consult on the most immediate risks in the field of energy security, in order to define those areas where NATO may add value to safeguard the security interests of the Allies and, upon request, assist national and international efforts."<sup>4</sup>

## **C. LITERATURE REVIEW**

### **1. Major Questions and Arguments**

Overall, a comprehensive review of the literature which includes key documents such as the European Commission Energy Strategy Green Paper and U.S. Energy Security Strategy reveals that the perceived threat of European over-dependence on Russian energy sources is somewhat one-sided

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<sup>3</sup> Radio Free Europe Website, "NATO Chief Says Alliance Could Improve Energy Security," <http://www.rferl.org /featurearticlepring/2006/11>, last accessed July 7, 2007.

<sup>4</sup> North Atlantic Treaty Organization Website, "Riga Summit Declaration 45," <http://www.nato.int/docu/pr/2006 /p06-150e.htm>, last accessed February 7, 2007.

and inward looking.<sup>5</sup> While the cautious and defensive views rightly illuminate the weaknesses of over-dependence that Europe faces, they seem to neglect, or at least disregard any weaknesses of Russia's position, nor do they seek to incorporate Russia's strategic culture in assessing the risk of the threat that Russia will continue to use energy as a political manipulation tool. While overstating a perceived threat can be expected within the realm of the international environment, the misperception of the strength of an adversary's position – in this case economic strength, not military – may lead to policy decisions that may be least effective and minimize stability over the issue at hand.<sup>6</sup> Moreover, the following proposition by Robert Jervis serves to illustrate the key problem that surrounds this issue and can serve to frame the question this thesis will answer: "If it is true that perceptions of the other's intentions are a crucial element of policy-making and that such perceptions are often incorrect, we need to explore how states perceive others and why and where they often go wrong."<sup>7</sup>

This thesis then, will not only describe the extent of European dependence on Russian oil and gas imports, but also analyze Russia's dependence on Europe as a major consumer and illustrate the extent to which Russia relies on European

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5 European Commission, "Green Paper: Towards a European Strategy for the Security of Energy Supply" (29 November 2000), [http://europa.eu.int/comm/energy\\_transport/en/lpi\\_en/html](http://europa.eu.int/comm/energy_transport/en/lpi_en/html), last accessed October 2, 2007; and United States National Energy Policy, "Report of the National Energy Policy Development Group," May 2001, <http://www.whitehouse.gov/energy/2001/National-Energy-Policy.pdf>, last accessed October 2, 2007.

6 Robert Jervis. *Perception and Misperception in International Politics* (Princeton, NJ: Princeton University Press, 1976), 107-113.

7 Ibid., 113.

consumption for energy revenues that have been vitally important for Russia's economic growth which has, since an initial 10 percent growth rate in 2000, averaged a 6-7% annual increase in Gross Domestic Product through 2006.<sup>8</sup> The analysis of Russia's strategic culture influence on its policies and its posture of dependence on Europe for energy revenues should enhance this picture, enable a better understanding of Russia's intentions, and aid the U.S. and Europe in formulating energy strategy and policy that is more effective based on the risk of the threat to deny energy resources for political or economic gain. The first goal of this thesis is to establish whether Russian strategic culture is likely to make its energy policy coercive. The second goal is to determine the extent of Europe's dependence on Russia for oil and natural gas. And the third goal is to find out how dependent Russia is on European consumption as a source of state revenues. By exploring these three topics, a clearer picture of Russia's intentions and capabilities to exert influence will emerge and help us devise a cohesive European energy policy that is complementary to a linked U.S. strategy.

## **2. Russia's Strategic Culture**

The former Soviet military has sometimes been characterized as exhibiting a 'cultural' preference for preemptive, offensive uses of force that was deeply rooted in Russia's history of external expansionism, and internal autocracy. How true is this? And, does this cultural characterization carry over to other strategic areas and

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<sup>8</sup> The Economist Intelligence Unit, "Russia Economy: Quick View - GDP Growth Eases," December 14, 2006.

organizations such as politics, the government, academia, business, and the population as a whole? Proponents of the term 'culture' strongly argue that "different states have different predominant strategic preferences that are rooted in the early or formative experiences of the state, and are influenced to some degree by the philosophical, political, cultural, and cognitive characteristics of the state and its elites."<sup>9</sup> Colin S. Gray argued in favor of the influence of culture as it relates to strategy when he wrote: "Strategic culture matters deeply for modern strategy, because the culture of the strategic players, individuals, and organizations influences strategic behavior."<sup>10</sup> He further explains "that culture comprises persisting socially transmitted ideas, attitudes, traditions, habits of mind, and preferred methods of operation that are more or less specific to a particular geographically based security community that has had a necessarily unique historical experience."<sup>11</sup> Finally, he offers some very strict points about the nature of culture: "1) Strategic behavior cannot be beyond culture, 2) Adversity cannot cancel culture, 3) Strategic culture is a guide to action, 4) Strategic culture expresses comparative advantage, 5) Strategic culture can be dysfunctional, and 6) Strategic cultures can be variously categorized."<sup>12</sup> From his writings, the answer to the questions posed above would be 'Yes.' That does not mean

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9 Alastair Iain Johnston, "Thinking about Strategic Culture," *International Security*, Vol. 19, No.4 (Spring, 1995): 34.

10 Colin S. Gray, "Strategic Culture as Context: The First Generation of Theory Strikes Back," *Review of International Studies* (1999): 25, 56.

11 Ibid., 51.

12 Ibid., 62-68.

that strategic culture has no limitations to its explanatory or predictive characteristics, rather the point here is that strategic culture must influence state behavior and is an important intervening variable to consider when assessing the risk of Russia to continue to use energy as a diplomatic weapon.<sup>13</sup>

### **3. Russian Energy Power and Issues**

Russia currently has the second largest known oil reserves and the world's largest known natural gas reserves in the world.<sup>14</sup> After several years of post-Soviet decline in production of oil and natural gas, the industry has rebounded to levels that are higher than at any other time in Russia's history. As a result of this return to high output, Russia's use of energy as a strategic manipulation tool for foreign diplomacy and its efforts to impose state control over oil and natural gas pipelines, export operations, and some production companies is the source of alarm for European countries and the United States. Gazprom, Russia's 51%-owned state-run natural gas monopoly, briefly cut off gas to Ukraine and, separately, to Belarus in January 2006 because those countries did not agree to greatly increased prices as a result of eliminating subsidies put in place in the 1990s. In the first case, where Ukraine was the victim in January 2006, claims were made that this was more than just ending subsidies, but a political move by Russia to punish the pro-western

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13 See Alastair Iain Johnston, "Thinking about Strategic Culture," *International Security*, Vol. 19, No.4. (Spring, 1995): 52-59. He summarizes limitations of strategic culture theory based on unfalsifiable empirical evidence.

14 Ibid.

government. To be sure this was a coercive move that fits 'third wave' deterrence theorist, Alexander George's definition:

The general intent of coercive diplomacy is to back a demand on an adversary with a threat of punishment for noncompliance that will be credible and potent enough to persuade him that it is in his interest to comply with the demand<sup>15</sup>

The second incident with Belarus in December 2006 was also linked to economics and renegotiating prices that had been made in the mid-1990s when Russia's negotiating posture was weaker due to its widespread domestic economic problems and lower energy prices.<sup>16</sup> However, the ramifications of the Belarus case are particularly acute due to the fact that the pipeline that suffered service interruption also travels on to service Germany. As a result, there is widespread uncertainty and mistrust among European Union consumer countries of Russian oil and natural gas exports that they too will suffer strategic manipulation of their energy needs and be at the mercy of Russian foreign policy and influence.<sup>17</sup> Russia has repeatedly denied any claims that they are using strategic manipulation of their energy export resources to negotiate foreign policy gains in their favor. In fact, they offer business case analysis of other global

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15 Lawrence Freedman. *Deterrence* (Malden, MA: Polity Press, 2004), 110.

16 Lionel Beehner, "Russia: Gassing the Neighbors," Council on Foreign Relations Daily Analysis, January 3, 2007, <http://www.cfr.org/publication/12325/russia.html>, last accessed October 2, 2007.

17 Peter Zeihan, "The Belarusian Crisis: An Opportunity for Germany," Stratfor, January 10, 2007, [http://www.stratfor.com/products/premium/read\\_article.php?id=282774](http://www.stratfor.com/products/premium/read_article.php?id=282774), last accessed August 4, 2007.

companies that practice similar market economy competition strategies. Russian President Vladimir Putin has also clearly stated that Russia does not use oil and gas resources to coerce its neighbors.<sup>18</sup> However, despite official statements that argue pragmatic solutions that support Russian national interests, the empirical evidence counters these claims. There exist numerous other examples that definitively show that Russia has in fact used economic coercion to affect the policy choices of other governments.<sup>19</sup> Indeed, Russia had engaged in leveraging oil, natural gas, and nuclear energy resources to manipulate the choices of nine Former Soviet Republics in the 1990s, including Turkmenistan, Kazakhstan, Azerbaijan, Georgia, Kyrgyzstan, Armenia, and the Baltic states.<sup>20</sup> While the outcome had not always been compliance by the target state to fold to the demands of Russia, in two thirds of the cases compliance or at least accommodation was secured. While there are many variables that come into play in Russia's energy policy, an underlying constant is the effects that strategic culture plays as strong and pervasive.

#### **4. European Dependence**

The majority of European countries are heavily reliant upon imported energy. Geographically, most of Europe has only an abundance of coal, most notably Germany and Poland,

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<sup>18</sup> Russian News and Information Agency, "Russia Does Not Use Oil and Gas as Political Weapons," January 2, 2007, <http://en.rian.ru/russia/20070201/60044654-print.html>, last accessed August 15, 2007.

<sup>19</sup> Adam N. Stulberg. *Well-Oiled Diplomacy: Strategic Manipulation and Russia's Statecraft in Eurasia* (Albany, NY: State University of New York Press, 2007), 15.

<sup>20</sup> Ibid.



some small oil reserves, with Romania at the top of that list, and a limited amount of natural gas mostly produced by Norway.<sup>21</sup> The larger industrial rich economies of England, France, Germany, and Italy must seek cooperative agreements with other nations in order to provide for the energy needed to maintain industry, manufacturing, and domestic use. While overdependence is a concern, estimates show that the European countries will continue to demand available and reliable supplies of oil and natural gas to support further economic growth. Due to the natural geography and proximity of Russia to Europe, a partnership of Europe and Russia is a necessity. In fact, building and maintaining this relationship is so important to future energy security that the European Union concentrates on this relationship as their number one energy security priority and formalized it through the 2000 EU-Russian Energy Dialogue.<sup>22</sup>

The recent instances in Ukraine and Belarus where Russia cut off gas supplies to these countries because of price disputes has raised the concern level for leaders of these consumer countries. They know that they are too dependent on Russian energy and are seeking ways to reduce this dependency.

Despite an ever growing awareness of dependence on the side of Europe, Russia is building a strategic new pipeline to Europe that will affect European energy security for years to come. This project, called the Nord Stream, will

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<sup>21</sup> Richard Overy. *Why The Allies Won* (New York, NY: W.W. Norton & Company, 1995), 228-235.

<sup>22</sup> Vince L. Morelli. "The European Union's Energy Security Challenges," *Congressional Research Service Report for Congress*, September 11, 2006, 10.

cross the Baltic Sea and directly connect Russia to Germany as it bypasses the Soviet-era, land based energy transit infrastructure that traverses several former Soviet Bloc countries, including Ukraine, Belarus, and Poland.<sup>23</sup> For the United States, greater Russian influence over Europe's oil and gas transportation infrastructure is a negative geopolitical development. Russia has shown increasing resistance to security cooperation with the U.S. on vital issues involving Iran and North Korea, is resistant to the promotion of democracy in its periphery, and has demonstrated a growing willingness to use its energy resources to influence other, smaller countries for political purposes. Furthermore, the U.S. has a strategic interest in minimizing European overdependence on Russian energy, which would limit the EU's ability to side against Russia on questions of great importance, such as Iranian nuclear proliferation and a missile defense shield.

#### **D. METHODOLOGY**

The framework for this thesis is centered on the theories of Past Actions and Current Calculus in determining the credibility of the threat that Russia will use energy as a coercive diplomacy tool in the future. Daryl Press outlines these theories as competing against each other to explain the actions of states when determining the

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<sup>23</sup> Nord Stream Website: "Nord Stream AG, a joint venture company, was established in December 2005 with the purpose of carrying out feasibility study and building the Nord Stream Pipeline. Gazprom holds a 51% interest in the joint venture, and BASF and E.ON hold 24.5% each. It was initially established as North European Gas Pipeline Company, the name was changed to Nord Stream in October 2006," <http://www.nord-stream.com>, last accessed October 15, 2007.

credibility of a threat.<sup>24</sup> Three main ingredients are outlined as important to states in assessing the credibility of a threat: Power, interest, and past actions.<sup>25</sup> Power is defined as the capability to carry out the threat. Interest is whether a state views the issue as an important national interest that will produce sufficient will to act. And past actions refers to a previous behavior, or reputation, that would lead a defending state to believe that the behavior will occur again. While the adversarial relationship is defined as anarchic 'military' competition in Press' book, in this thesis it will be applied to economic competition. Through the findings of three case studies, his research counters conventional wisdom and finds that during crisis states do not form policy or act according to past actions theory, rather they react according to current calculus theory which relies only on balance of power and interest of each situation independent of past actions. He argues that past actions lose all importance during crisis because variables change that effect the balance of power and interest in each crisis situation, therefore, only power and interest are important. While I agree with this argument based on the empirical evidence presented, I take the approach that combines the two theories so that they are not mutually exclusive as Press argues, and suggest that past actions and current calculus theory both matter, but for different reasons. My argument is that past actions do matter, but it is in determining whether a threat exists. And that current calculus, the balance of power and interest

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24 Daryl Press. *Calculating Credibility: How Leaders Assess Military Threats* (Ithaca, NY: Cornell University Press, 2005), 7-9.

25 Ibid., 9.

also matters, but it is in determining what the risk of the threat is. Again, the use of these theories is only the framework for this study, it is not intended to add to or counter Press' argument which he specifies to apply only to military threats at the pinnacle of crises.

Russia's strategic culture and previous coercive diplomacy behavior will support the hypothesis that Russia's past actions matter in realizing that a threat exists. Explaining the interdependence of Europe oil and gas consumption and Russia's oil and gas supply will offer a better understanding of the balance of power and interests in order to assess risk. And together, they will contribute to understanding the implications to European and U.S. security.

This thesis consists of three main sections. First, Russian foreign policy actions related to energy must be properly analyzed within the context of a strategic culture containing authoritarian and coercive influences that stem from centuries of harsh experiences. Russia is often characterized by a struggle for national identity, survival from harsh invaders, the resultant pursuit of security by expansion, and the tensions in a multinational society that grew from the tsarist empire.<sup>26</sup> Russia has shouldered the burden of existing in a perpetual identity crisis--being an outsider to Europe and the modern world--while feeling insecure on all of its borders and occasionally within its borders. The response from the governments across decades has been to exhibit coarse, reactionary policies that

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<sup>26</sup> Robert V. Daniels. *Russia: The Roots of Confrontation* (Cambridge, MA: Harvard University Press, 1985), 360.

protect the state and consolidates power, and these influences resonate today. The intent of this section is to explain that Russia's historically evolved strategic culture continues to shape Russian energy policy. Second, the extent of European dependence on Russia for oil and natural gas will be fully investigated. A wide variety of data will be analyzed that includes oil and natural gas demand, in the form of current and estimated future consumption needs; the variety of sources that oil and natural gas comes from for consumption; the opportunities and limitations of diversifying these sources either through increased production and feasibility of new sources; and exploring alternatives such as nuclear, wind, hydro, solar, and biomass energy sources. And third, the Russian supply of oil and natural gas will be analyzed to discern the competitive advantages of Russia's European market such as state control of companies, pipelines, and bilateral agreements; the opportunities for expanding other markets and increasing production and transportation infrastructure; and the weaknesses that Russia's industry faces such as an aging infrastructure, lack of competition and monopolistic practices, limits to external financing, high transaction costs, GDP dependence on energy revenues, and high domestic consumption. The explanation of Russia's strategic culture influences and the analysis of European/Russian energy interdependence will aid future negotiating and policy making for Europe and the U.S.

#### **E. SOURCES**

Russian strategic culture and foreign policy information comes from historical and political science

books and journals, public speeches and press releases by heads of state and ministries, Congressional Research Service reports, official strategy documents, public policy institute and think tanks such as The Brookings Institute, The Heritage Foundation, Council on Foreign Relations, the Carnegie Endowment for International Peace and a variety of open-source news reporting such as Radio Free Europe, the Economist, the Financial Times, the Wall Street Journal, the New York Times, and other sources which are listed in the bibliography section. For the interdependence of European energy demand and Russian oil and natural gas industry supply sections of this thesis, information was available from professional journals, governmental agencies such as the European Union and U.S. Energy Information Agency, international organizations and agencies such as the World Bank and International Monetary Fund, and companies such as Gazprom, ConocoPhillips, Royal Dutch/Shell, and other leading international energy companies.

## **II. RUSSIAN STRATEGIC CULTURE**

Russian strategic culture, that of an imperial Russia evolved from its emergence as a state in the middle of the last millennium through most of the existence of the Soviet Union until 1991, has been one of the most authoritarian, coercive, and militarized cultures in history, arguably rivaling, if not exceeding, those of Prussia, Imperial and Nazi Germany, and Imperial Japan in these regards. Beginning sometime in the 1970s and continuing through the 1980s, dramatically so in the years after the collapse of the USSR, situational factors arose which opened the possibility of changing this nature, significantly demilitarizing Russian strategic culture but also leaving open the possibility of a revival or reassertion of traditional, highly authoritarian Russian strategic culture. The purpose of this chapter is to summarize the origins, contents, and implications of Russian strategic culture in order to comprehend how it is manifested in shaping Russia energy policies as part of their economic strategy. This chapter will aid in answering the overall question that this thesis seeks to answer is: What is the risk to Europe, an important ally to the U.S., that Russia may attempt coercive diplomacy by using oil and natural gas as a manipulative tool in foreign policy relations?

### **A. WHAT IS STRATEGIC CULTURE**

While a perfectly defined notion of strategic culture will invariably be open to dispute, it can be thought of as "a body of broadly shared, powerfully influential, and

especially enduring attitudes, perceptions, dispositions, and reflexes about national security in its broadest sense, both internal and external, that shape behavior and policy."<sup>27</sup> For all its high degree of authoritarianism and militarization, Russian strategic culture is not simply confined within its military culture, such as the attitudes about how military power should be shaped, maintained, and used. Russia's strategic culture is highly influenced by its political culture, how political power is identified, obtained, legitimized, and utilized; by its foreign policy culture, how the outside world is considered and engaged; and by economic culture – although the latter is, in the Russian case, more of a product of the other influences than by itself a source of influence.<sup>28</sup> But that may be changing as Russia has moved forward to a more market based economy operating within a more democratic environment, relatively speaking. In other words, Russia's strategic culture has formed and is influenced by the intersection of political, foreign policy, military, and economic culture—and these influences can flow in both directions.

A common view of the destiny of Russia's strategic culture is that it has followed a despotic-servitude relationship over its history. While the detailed ideological specifics changed over time due to the western influences of modernity, the internal mechanics and structure of Russia were much more enduring. A quick glance at the empirical evidence would tend to support the logic

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27 Fritz W. Ermarth, "Russian Strategic Culture: Past, Present, and...in Transition?" in Comparative Strategic Cultures Curriculum, Defense Threat Reduction Agency (October 16, 2006): 3.

28 Ibid., 4.



that the core of Russia's strategic culture remained intact while external influence only slightly diluted it over time in the transition from the Tsarist empires, to the Soviet domination, and now to the post-Soviet era. Russia held on to serfdom until the emancipation of 1861, which was longer than any other country in Europe. Stalin's collective farms seem to bear some resemblance to serfdom, although in a different but arguably more exploitative form. The Old Regime sent dissidents and political prisoners to the deep reaches of Siberia, similarly Stalin used the Gulag in the same fashion, and now nationalization of major industry and imprisonment of powerful and wealthy opposition leaders has reemerged. Moreover, the primacy of political order of pre-Soviet Russia was a tempered despotic autocracy with revolutions from above, namely those of Ivan the Terrible and Peter the Great, which share some similarity of even farther reaching revolution from above by Lenin that was continued by Stalin, and then smaller in scale with the transition of Yeltsin to Putin.<sup>29</sup> But such similarities cannot be perfectly deemed continuities, and are lacking a strong empirical evidence of "transmission taking us from Ivan and Peter to Lenin and Stalin" to present a causal explanation.<sup>30</sup> However, despite the absence of an undeniable causal presentation of data and while also recalling the six characteristics of strategic culture by Colin Gray, that does not mean that the Old Regime did not mold its Soviet successor, nor does it mean that the seven decades of Soviet domination did not mold the leaders and

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29 Martin Malia. *The Soviet Tragedy: A History of Socialism in Russia, 1917-1991* (New York: The Free Press, 1994), 52.

30 Ibid., 52-53.

society of today's post-Soviet union led by Vladimir Putin, whom operates within a contrasting multi-party environment led by the Union of Russia.

## **B. RUSSIA'S HISTORICAL CONTEXT**

Charles Tilly argued that European states formed along three basic modes in order to prepare for war: Coercion-intensive, capital-intensive, and capitalized coercion which is somewhere in between.<sup>31</sup> To be sure, Russia started as a coercion-intensive state, where rulers squeezed the means of war from the populations and those they conquered and built structures and processes for future extraction of resources. This included taxing the peasants of crops and livestock, as well as these agrarian populations supplying young men as soldiers depending on the needs. But in order to do this certain controls had to be implemented to ensure the state had the resources needed to wage successful war, either offensive or defensive in nature depending on the circumstances.

The early Muscovy state operated under a patrimonial regime within the coercion-intensive mode and formed the basis for Russia power over two centuries, from the mid-15th century to the middle of the 17th century.<sup>32</sup> Here is where the seeds of what was to come in the future took root. In order for the Tsars to create 'Russia' and to have the manpower and resources to defend from invasion of superior Western and Mongol forces they had to "put an end to the

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31 Charles Tilly. *Coercion, Capital, and European States, AD 990-1992* (Cambridge, MA: Blackwell Publishing, 1990), 30.

32 Richard Pipes. *Russia under the Old Regime* (New York, NY: Penguin Books, 1995), 85.

traditional right of the free population to circulate: All landowners had to be compelled to serve the ruler of Moscow."<sup>33</sup> This entailed converting their land into fiefs, and then commoners were fixed to their place of work, which essentially attached the peasantry to the land and they became serfs. This was done under Ivan the III and laid the foundations of Russian absolutism. To ensure security for Russia, Ivan needed a stable society rich in resources and the state authority to extract and use them. This is the problem that many states face when increased threats require action – a need for an increase in executive power. He sought to increase his executive power, but while doing so faced no viable opposing force despite an integrated boyar network, and therefore he secured absolutism. Ivan's statecraft is the model that all future Russian political systems are based on: "Absolutism and militarism under cautious and scrupulous control."<sup>34</sup>

Despite modest and situationally constrained attempts at reform by Peter the Great and Catherine II, examples of the longevity of Russia's strategic culture from this past century that follow Ivan the III's statecraft model are embedded in the systems and the leaders.<sup>35</sup> First of all is the example of Lenin and War Communism that was controlled by the central state system that planned, monitored, and controlled the extraction, production, and transportation of all natural resources and manufactured goods for the entire economy. An example is that in June 1918 the revolutionary

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33 Pipes, *Russia under the Old Regime*, 86.

34 Hugh Ragsdale. *The Russian Tragedy: The Burden of History* (Armonk, NY: M.E. Sharpe, Inc. 1996), 18.

35 Pipes, *Russia under the Old Regime*, 117-126, 129.

government of Lenin decreed nationalization of all heavy industry, which led to subsequent nationalization decrees over the next few months in light industry, wholesale trade, retail trade, and even reached "every last artisan or commercial enterprise in the country, down to those that had only five employees."<sup>36</sup> After Lenin's death, Stalin increased internal coercive behavior that included forced collectivization of farms and the state purges of the Great Terror, complete with show trials that further entrenched state control and strong internally coercive tendencies within society that resulted in programs of horrific consequence. The dark side of Sovietism grew from its absolutist roots and emerged over time as it tightened its grip over the country with each constraint, such as abolishing private property, eliminating religion, and controlling information through censorship and propaganda.

As the revolution of the Leninist proletariat turned first into the dictatorship of the Party, then into the dictatorship of Stalin, and finally to the totalitarian system that expanded into a global threatening superpower, the internal coercion was naturally carried over to external coercion that continued through the Cold War years with the military as the instrument of choice. The transition from the October revolution to a totalitarian state was not its purpose, rather an unintended consequence due to the need to maintain internal control from counterrevolutionary forces. Once the internal sources of instability to the central state power were under control, outside influences of instability – with capitalism at the center – also had to be

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36 Martin Malia. *The Soviet Tragedy*, 128.

confronted, which led to even further controls on society, through reduced speech, increased state propaganda, and the maturation of a police state.

As a false pause in Russian history of coercive diplomacy that was outward looking, offensive, and somewhat imperialistic, the collapse of the Soviet Union and the 1990s ushered in hope for enduring change by reforming into a more democratic and open free-market economy. However, due to economic disaster, domestic turmoil, corruption, and oligarchic power and wealth grabs coupled with the scarce resources of oil and natural gas growing in price and demand to fuel economies around the world, Russian President Putin has reached back to the relative comfort of a culture that is familiar to Russians – a strategic culture that recognizes state control, authoritarianism, and coercion. A majority of Russians seem to have a deep nostalgia for the Soviet era that while oppressive to western standards, at least offered some stability for much of society. By tightening state control over western capitalist influences and drawing on nationalist principles, Putin has enjoyed over a 70% approval rating from Russians. By eliciting such widespread domestic support, his foreign policy – with energy as the manipulative tool – is less constrained by domestic pressure and is a source of power and confidence for Russia as a whole. This strategy, while causing a less stable security environment for Europe, appears to be benefiting Russia as it strives to return to the top rungs of international influence and relevancy. Moreover, since a concentration of state power and coercion is the long running undercurrent and *modus operandi* for Russia, U.S. and European policy makers must take this into account as a

major factor for long term policy planning for the future when engaging and responding to Russian policies.

### C. DOMESTIC POLITICAL CULTURE

Russian political culture has been a major contributor to strategic culture, especially to its historical militarization and more recently to its economic strategies. Political culture is itself very harmonious with Russian military values in that it is grounded on the accepted principle of "who dominates over whom by virtue of coercive power or status imparted by higher authority, such as by God to the Tsar, the Tsar to the boyars; or by history to the communist leadership and in turn to bureaucrats and political leaders."<sup>37</sup> Thus, political conflicts were resolved by struggle and intrigue, occasionally by force, but not by negotiations, bargaining, voting, or legal adjudication.<sup>38</sup> Marxism, especially as interpreted and applied by Lenin and his colleagues, fit rather naturally with Russian political culture, despite its materialism in contrast to Russians' notions about the "value system" of their culture.<sup>39</sup> This is because Marxism is as much a martial doctrine and a summons to conflict, as a political and social philosophy.<sup>40</sup>

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37 Fritz W. Ermarth, "Russian Strategic Culture: Past, Present, and...in Transition?" in *Comparative Strategic Cultures Curriculum*, Defense Threat Reduction Agency (October 16, 2006): 6.

38 Martin Malia. *The Soviet Tragedy*, 2-7.

39 Ibid., 7.

40 Ibid., 7-8.

## 1. Power in the Presidency

After the turbulence of the first post-Soviet decade, it is clear that elements of traditional Russian political culture are strongly reasserting themselves under Vladimir Putin. The essence of this reassertion is not just in moves toward more authoritarian rule, which have been relatively mild by Russian and Soviet standards. Rather, it is the clear tendency of those who wield or strive for political power in Russia to regard the features of normal democratic life - parties, parliament, a meaningful press, election campaigns - not as the enabling conditions of a legitimate political structure, but as instruments to be manipulated, controlled, or opposed for the benefit of the central authority. This is acknowledged as the case when Boris Yeltsin's time as Russian President was nearing the end and he and "the family - the complex of close relatives as well as political and economic leaders that had benefited from influence in the Kremlin," undertook a full-out search for a new face who might continue political ties and win the 2000 elections.<sup>41</sup>

Putin was named by Yeltsin as prime minister in the summer of 1999 as that hope, but opinion polls taken at the time showed him with only a 4% preference to be the next president and behind four other candidates who were not Kremlin loyalists.<sup>42</sup> However, several factors launched Putin's popularity which included "his image as a youthful, vigorous, sober, and plain talking leader, massive support

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41 Archie Brown, ed. *Contemporary Russian Politics: A Reader* (Oxford: Oxford University Press, 2001), 220.

42 *Ibid.*, 221.

from state-owned television and other mass media, and the tough military stance against the Chechens and Islamic separatists with the start of the second Chechen war in the North Caucasus that occurred soon after Putin took office.<sup>43</sup> Moreover, his tough stance against the oligarchs, perceived as gaining great wealth unfairly under the guise of capitalist methods, and an economic recovery that saw an annual growth rate as high as 9% were also key developments.<sup>44</sup> All of these factors were instrumental in propelling him to become the top presidential candidate in opinion polls, securing 58% by January 2008.<sup>45</sup> To capitalize on the growing base of popularity that Putin enjoyed, Yeltsin resigned on December 31, 1999 giving Putin the additional leverage of being an acting incumbent when the elections occurred in March.<sup>46</sup> Together, the circumstances of the Chechen response as well as the strategic political moves by Yeltsin are clear examples of utilizing democratic structures to continue controlling the power of the central government.

A most recent example is currently playing out and the first move took place on September 12, 2007, when Russian President Vladimir Putin dismissed Prime Minister Mikhail Fradkov, and effectively dissolved the government. In a statement, Putin claimed the move was necessary to prepare

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43 Stuart D. Goldman, "Russia Political, Economic, and Security Issues and U.S. Interests," *Congressional Research Service* (May 31, 2007): 3.

44 Bertelsmann Transformation Index, "Russian Federation," Country Reports 2003, <http://www.bertelsmann-transformation-index.de/159.0.html?L=1>, last accessed October 2, 2007.

45 Archie Brown, ed. *Contemporary Russian Politics: A Reader*, 221-222.

46 *Ibid.*, 223.



Russia for elections, but also it is reported that the move was motivated to coincide with Putin's own political strategy for the future in naming a successor that would more than likely win in the Presidential elections of 2008.<sup>47</sup> In the official exchange, Prime Minister Fradkov offered his support of leveraging and shaping Putin's strategy by claiming that his resignation was done:

...in order to see you [President Putin] have as free a hand as possible in making decisions, including human resource decisions.<sup>48</sup>

Putin's response complemented the intent to prepare the political playing field in his favor:

The country is indeed in the run up to parliamentary elections now, which will be followed soon after by the presidential election. Perhaps you are right and we should all reflect now on how to organize the power and management structure in such a way as to best adapt it to the election campaign period and ensure it can prepare the country for the period after the parliamentary election and the presidential election in March 2008.<sup>49</sup>

The dissolution of the government was expected to result in a new head of government, who will be seen as Putin's choice to succeed him after he steps down next spring. Again, Prime Minister Mikhail Fradkov said he asked for the dissolution because with elections approaching,

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47 Mike Eckel, "Russia PM goes as Putin dissolves government," *The Independent*, September 12, 2007, <http://news.independent.co.uk/europe/article2954274.ece>, last accessed October 2, 2007.

48 President of Russia Official Web Portal, "Statements on Major Issues: Beginning of Working Meeting with Prime Minister Mikhail Fradkov," September 12, 2007, [http://www.kremlin.ru/eng/speeches/2007/09/12/1707\\_type82912type82913\\_143736.shtml](http://www.kremlin.ru/eng/speeches/2007/09/12/1707_type82912type82913_143736.shtml), last accessed October 2, 2007.

49 Ibid.

Putin needed to have a free hand to make decisions, including those concerning appointments. And under the Russian constitution, Putin had two weeks to propose a new head of government, which the lower house of parliament, the State Duma, then has a week to vote on. Russian news agencies said Fradkov would serve as acting prime minister until the vote.

The parliamentary elections are scheduled for December 2, 2007, followed some three months later by presidential elections. Two top Russian officials were thought to be front runners for Putin's recommendation to be his successor and to be nominated as the next Prime Minister. The first was Sergei Ivanov, a first deputy prime minister and the other, also a first deputy prime minister, Dmitry Medvedev, who is also a top executive at the state controlled natural gas monopoly Gazprom.<sup>50</sup> However, in a surprise to all watching and waiting, Putin named a relatively unknown official, Viktor A. Zubkov, the Director of the Federal Financial Monitoring Service, as the next prime minister<sup>51</sup>

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50 C. J. Chivers, "Putin Shuffles Government, Posing Mystery," *The New York Times*, September 12, 2007, <http://www.nytimes.com/2007/09/13/world/europe/13russia.html?ex=1347336000&en=75470e5b9beeb174&ei=508&partner=rssnyt&emc=rss>, last accessed October 2, 2007; and Andrei Vavra, "Russian Government Gets New Prime Minister," RIA Novosti, September 14, 2007, <http://en.rian.ru/analysis/20070914/78810691.html>, last accessed October 2, 2007.

51 Lynn Berry, "Putin Names Surprise Nominee for Premier," *The Associated Press*, September 12, 2007, [http://news.yahoo.com/s/ap/20070912/ap\\_on\\_re\\_eu/russia\\_government](http://news.yahoo.com/s/ap/20070912/ap_on_re_eu/russia_government), last accessed October 2 2007.

Consequently, the State Duma overwhelmingly approved Zubkov in a vote of 381 in favor and only 47 against.<sup>52</sup>

The move to appoint a new prime minister has led to speculation on how Putin is shaping the future with a focus on retaining political and economic stability that his policies have brought and in furthering the concentration of state power. The first premise to support this is that based on Putin's widespread popularity, any candidate he supports will likely win the next election, or at least transfer and command a large proportion of votes based on this popularity by association and endorsement. But, due to the fact that Zubkov is relatively unknown, speculation assumes that Putin has avoided naming a real successor since Putin would become a 'lame duck' for the rest of his presidency and that he will wait until closer to the elections to back a prospective candidate.<sup>53</sup> Further speculation proposes that the real message Putin has relayed by naming an unknown loyalist is to drive home that Putin himself is the only source of authority in the country, and will remain so now and through the spring 2008 elections.<sup>54</sup> The second speculation is that even if Putin does support Zubkov to become his successor, the fact that Zubkov is a

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52 Radio Free Europe/Radio Liberty. "Duma Approves Zubkov as Prime Minister," RFE/RL Newsline, Vol. 11, No. 171 (September 14, 2007), <http://rferl.org/newsline/2007/09/1-RUS/rus-140907.asp?po=y>, last accessed October 2, 2007.

53 Lynn Berry, "Putin Names Surprise Nominee for Premier," *The Associated Press*, September 12, 2007, [http://news.yahoo.com/s/ap/20070912/ap\\_on\\_re\\_eu/russia\\_government](http://news.yahoo.com/s/ap/20070912/ap_on_re_eu/russia_government), last accessed October 2 2007.

54 C.J. Chivers, "Putin Shuffles Government, Posing Mystery," *The New York Times*, September 12, 2007, <http://www.nytimes.com/2007/09/13/world/europe/13russia.html?ex=1347336000&en=75470e5b9beeb174&ei=508&partner=rssnyt&emc=rss>, last accessed October 2, 2007.

loyalist to Putin makes Zubkov a "caretaker" successor to the current regime and an extension of Putin's rule even after his authority formally ends.<sup>55</sup> Additionally, it is thought that perhaps this move may pave the way for Putin to return to the presidency at the next elections in 2012, since based on the current constitution he cannot be retained for a third consecutive term, or that Putin will be appointed as the next Prime Minister and the power he enjoyed as President will shift to him in this office. With specific speculation aside as to what exactly Putin's strategy is for the future, the broader actions and words of Putin at this time do provide substantive evidence that he does embrace the enduring Russian political environment that rewards shaping the democratic methods and structures that currently exist in order to continue a concentration of power in the office of the president and among the cadre of loyalists closest to him.

## **2. Concentration of Power**

Central to concentrating executive power, the Putin regime, over time, has also steadily worked to regain control of the broadcast media. A key target was the media empire of Vladimir Gusinsky, which included Russia's only independent television network, NTV, which had been critical of Putin. Gusinsky, one of the so-called oligarchs who rose to economic and political prominence under Yeltsin, was arrested in June 2000 on corruption charges and was later released and allowed to leave the country.<sup>56</sup> The arrest was

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55 Lynn Berry, "Putin Names Surprise Nominee for Premier"

56 David E. Hoffman. *The Oligarchs: Wealth and Power in the New Russia* (New York: Public Affairs, 2003), 476-483.

viewed as an act of political repression by the Putin regime and would be followed in 2003 in a similarly reasoned arrest of Mikhail Khodorkovsky.<sup>57</sup> This assault on the oligarchic capitalist system, which Gusinsky was part of, was not to change it, but rather a successful attempt by Putin to control it.<sup>58</sup> In April 2001, the state-controlled gas monopoly Gazprom took over NTV and appointed Kremlin loyalists to run it. A few days later, Gusinsky's major newspaper, *Segodnya*, was shut down and the editorial staff of his respected newsweekly, *Itogi*, was fired.<sup>59</sup> The government then forced the prominent oligarch Boris Berezovsky to give up ownership of his controlling share of the ORT TV network.<sup>60</sup> In January 2002, TV-6, the last significant independent Moscow TV station, was shut down in what was believed to be government pressure.<sup>61</sup> The government has also moved against the independent radio network, Echo Moskvuy and other electronic media. In July 2006, news media reported that the Russian government had forced Russian radio stations to stop broadcasting programs prepared by the U.S. funded Voice of America (VOA) and Radio

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57 Lilia Shevtsova. *Putin's Russia* (Washington, D.C.: Carnegie Endowment for International Peace, 2005), 277-278.

58 David E. Hoffman. *The Oligarchs*, 476.

59 Lilia Shevtsova. *Putin's Russia*, 176-177; and BBC News, "Russian Media Empire Crumbles," April 17, 2001, <http://news.bbc.co.uk/1/hi/world/europe/1281223.stm>, last accessed September 29, 2007.

60 David E. Hoffman. *The Oligarchs*, 492; and CNN World, "Kremlin Buys Control of Russian TV," February 5, 2001, <http://edition.cnn.com/2001/WORLD/europe/02/05/russia.ort/index.html>, last accessed September 29, 2007.

61 Center for Defense Information, "Liberals Protest TV-6's Closure," *Jamestown Foundation Monitor*, compiled in Johnson's Russia List #6062, February 7, 2002, <http://www.cdi.org/russia/Johnson/6062.txt>, last accessed September 29, 2007.

Liberty (RL).<sup>62</sup> Threats to revoke the stations' broadcasting licenses forced all but 4 or 5 of the more than 30 radio stations that had been doing so to stop broadcasting VOA or RL programs.<sup>63</sup> Additionally, journalists critical of the government have been imprisoned, attacked, and in some cases killed, as was the case with the highly respected investigative journalist and Chechen war critic Anna Politkovskaya, who was murdered in October 2006.<sup>64</sup>

Two other aspects are important to relate to the move by Putin to name a successor. First is that a single party, Unified Russia, currently commands a 59% majority of the support from the public with the Communist party coming in at a distant second at just 18%.<sup>65</sup> And second, Putin, who commands over 70% of popularity from the public is the

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<sup>62</sup> Alvin Snyder. "U.S. fails to Fight Russian Government Censorship of VOA/Radio Liberty News Broadcast," Worldcasting, July 13, 2006, [http://uscpublicdiplomacy.com/index.php/newsroom/pdblog\\_detail/worldcasting\\_to\\_be\\_or\\_not\\_to\\_be\\_a\\_re\\_jiggered\\_us\\_information\\_agency/](http://uscpublicdiplomacy.com/index.php/newsroom/pdblog_detail/worldcasting_to_be_or_not_to_be_a_re_jiggered_us_information_agency/), last accessed September 29, 2007.

<sup>63</sup> Voice of America News. "U.S. Official Expresses Concern Over Loss of VOA, Radio Liberty Broadcast Outlets in Russia," July 7, 2006, <http://www.voanews.com/english/archive/2006-07/2006-07-07-voa70.cfm?CFID=189835992&CFTOKEN=92305240>, last accessed September 29, 2007.

<sup>64</sup> MSNBC World News Europe. "Journalist Who Died in Fall Reportedly Probed Weapons Deals with Iran, Syria," The Associated Press report, March 6, 2007, <http://www.msnbc.msn.com/id/17467200/>, last accessed September 29, 2007.

<sup>65</sup> Robert Coalson, "Russia: Duma Elections To Test Russia's Political Parties," Radio Free Europe/Radio Liberty News, September 4, 2007, <http://www.truthnews.net/month/2007080044.htm>, last accessed September 15, 2007; Robert Parsons, "Russia: Pro-Kremlin Party Wins Landslide Victory in Moscow Council Election," Radio Free Europe/Radio Liberty News, December 5, 2005, <http://www.rferl.org/featuresarticle/2005/12/4fce4667-6319-4de3-bcda-7db24d243a5c.html>, last accessed September 15, 2007; and Victor Yasmann, "Russia: The Moscow City Duma Election -- A Cast of Managed Democracy," Radio Free Europe/Radio Liberty News, December 4, 2005, <http://www.rferl.org/featuresarticle/2005/12/253f8b28-d8e3-4842-8dd9-0cf4fbb97762.html>, last accessed September 15, 2007.

leader of that party. Therefore, while elections and a multi-party system operate within the political sphere of Russia, circumstances of the structure of popularity of Putin and his party almost guarantees that any successor that Putin names will win the next presidential election, therefore continuing the current control of state power.<sup>66</sup> Thus, while certain foundations of democracy are present in Russia, such as elections and multiple competing parties, the fact that one party dominated the opinion polls somewhat constrains the full progressive forces of democracy and harkens back to the familiarity of the one party communist system as an important element of Russia's strategic culture.

#### **D. FOREIGN POLICY CULTURE**

Russian foreign policy culture is a reflection of political culture to a significant degree. Russian leaders have generally been capable of artful and accommodating diplomacy when the situation demanded it, as displayed by the Soviet pursuits of various versions of détente by Stalin, Krushchev, and Gorbachev. Yet, there always seems to be present an attitude of slight mistrust simmering just below consciousness that views foreign actors as either "enemies, or subjects, or transient allies, or useful fools to be manipulated, the attitude of kto-kovo."<sup>67</sup> In the

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<sup>66</sup> Robert Coalson, "Russia: Duma Elections To Test Russia's Political Parties," Radio Free Europe/Radio Liberty News, September 4, 2007, <http://www.truthnews.net/month/2007080044.htm>, last accessed September 15, 2007.

<sup>67</sup> Fritz W. Ermarth, "Russian Strategic Culture: Past, Present, and...in Transition?" in Comparative Strategic Cultures Curriculum, Defense Threat Reduction Agency (October 16, 2006): 6

early Soviet period, the mission was to spread world revolution, an ideological interpretation for Soviet national power, but also a pretense to supranational values of justice and progress.<sup>68</sup> Military power has long been seen as a means for pursuing messianic goals or as a protective base from which to pursue them by other means, such as diplomacy, political action (overt or covert), and even foreign assistance.

In rhetoric and action, Russian foreign policy culture has often expressed a puzzling combination of contradictory attitudes: Defensiveness bordering on paranoia, on one hand, combined with assertiveness bordering on pugnacity, on the other. In the Russian mentality, both an inferiority complex and a superiority complex can be simultaneously on display.<sup>69</sup> The traumatic effects of the break up of the USSR and decline of Russia's role as a great power have intensified these complexes, especially among Russia's elites. And the partial recovery of Russia's international standing under Putin's more disciplined and, as the result of energy revenues, better-funded regime, have produced a heightened amplification of these complexes in the pronouncements and decisions of leaders as well as the adversarial stances on international issues. Despite these, or perhaps because of these conflicting complexes, Russian strategic leadership has on the whole been notably risk

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<sup>68</sup> Albert L. Weeks. *The Other side of Coexistence: An Analysis of Russian Foreign Policy* (New York: Pitman Publishing, 1970), 6-7.

<sup>69</sup> Robert V. Daniels. *Russia: The Roots of Confrontation* (Cambridge, MA: Harvard University Press, 1985), 358-359.



averse at the level of action and operations.<sup>70</sup> Russia has not engaged in daring high-risk, high-payoff initiatives such as characterized the strategic leadership of Napoleon and Hitler. A more pragmatic approach to issues, and the tendency to think three times about the ramifications before acting was certainly the case throughout the Soviet period as well, pushing the limits only on a smaller scale where the risks were perceived as moderate.<sup>71</sup> The rudimentary problems in foreign affairs for the Soviet leaders after Stalin's death were three-fold: To strengthen the security of its borders and internal security, to strengthen the security of Russia's various contiguous satellite state, and to extend Soviet influence throughout the world without directly involving the its own soldiers in combat.<sup>72</sup>

Khrushchev's deployment of nuclear missiles to Cuba in 1962 may be seen as a dramatic exception. At the same time, the record shows that because the United States was accelerating its strategic build up and had recently discovered how the Soviets actually lagged, Khrushchev had good reason to believe bold action was less risky than doing nothing and he saw U.S. actions leading up to his move as indications he would get away with it.<sup>73</sup> It was as much a miscalculation as a daring initiative that failed, despite accusations of adventurism Khrushchev subsequently faced.

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<sup>70</sup> Fritz W. Ermarth, "Russian Strategic Culture: Past, Present, and...in Transition?" in *Comparative Strategic Cultures Curriculum*, Defense Threat Reduction Agency (October 16, 2006): 7.

<sup>71</sup> Mikhail Tsyarkin (Associate Professor, National Security Affairs Dept, Naval Postgraduate School), in discussion with the author, August 2007.

<sup>72</sup> Albert L. Weeks. *The Other side of Coexistence*, 24.

<sup>73</sup> Robert V. Daniels. *Russia: The Roots of Confrontation*, 256.

The invasion of Afghanistan was clearly such a miscalculation by a very risk-averse Brezhnev leadership as well. More recently, President Putin's speech at the Munich Conference on international security has become a sort of pivotal point as he openly and harshly criticized the U.S. on a number of key current issues. The comments are telling of Putin's change from a more cooperative approach to the U.S. and the West in general, especially magnified after the September 11 terrorist attacks, to that of taking the lead among a group of countries such as China, Venezuela, and Iran that oppose the U.S. as a powerful hegemon in a unipolar international arena. What Putin has demonstrated is his readiness for Russia to lead other countries to a multi-polar world and work on raising the status of Russia, which has been neglected since 1991.

### **1. The Messianism of Russian Thought**

Consistent with an enduring culture possessed by Russia is an important and complex, though partly constructed, *messianic* theme in Russia interwoven within society and regime leaders over time.<sup>74</sup> Messianism in the Russian sense, where the leaders of Great Russia hold the answers to the problems and inequalities of the world, can be seen as exhibited with some peculiar differences throughout Russia's history and is especially evident in the years of the Bolshevik revolution and subsequent Soviet rule where the Kremlin sought to justify and legitimize its rule. Russian political and foreign policy cultures have always had some

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<sup>74</sup> Frederick C. Barghoorn. "Great Russian Messianism in Postwar Soviet Ideology," in *Continuity and Change In Russian and Soviet Thought*, Ernest J. Simmons. Ed., (Cambridge, MA: Harvard University Press, 1955), 531.

element of messianism, that is, a sense of national and international mission beyond security and prosperity for the country. In the Imperial period, this messianism, the idea of Moscow as the Third Rome, the heir of a legendary religious and imperial tradition helped to legitimize national expansion and also increase the sense of national and cultural superiority.<sup>75</sup> But, outsiders viewed the powerful Soviets and Communist party as seeking to expand its power and ultimately to achieve universal domination. Moreover, while Moscow appeared to fear the world which it wished to reconstruct to fit the communist ideals, it also feared the unrest and counterrevolutionary peoples which it already ruled.<sup>76</sup> With the concept that only Russia holds the answers for the future, Moscow sought the support of the proletariat in its struggle to subvert and destroy the ruling classes of the non-soviet world. It held out to all the countries of the world the vision and prophecy of the "earthly paradise, the harmonious society without coercion and inequality."<sup>77</sup> This is the utopian aspect of Soviet Russia's message to the world that was rooted in the Bolshevik revolution and is now sometimes seen as becoming a mythic source of national pride.

Thus, the Kremlin's outreaching and intrusive activities, its expansionist policies, and its supporting ideological system rested upon at least the formal foundation of Marxist-Leninist universalism. It is widely

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<sup>75</sup> W. Bruce Lincoln. *Between Heaven and Hell* (New York: Penguin Books, 1998), 35-37, 120-121.

<sup>76</sup> Robert V. Daniels. *Russia: The Roots of Confrontation*, 96-104.

<sup>77</sup> Frederick C. Barghoorn. "Great Russian Messianism in Postwar Soviet Ideology," 531.

believed that while not fully developed in detail, the Kremlin of the Soviet Union had the idea of a plan not only for ruling the world, but for transforming it in its own image. To implement this dominating and unique program, it had to develop and refine "the doctrine of uniqueness, superiority, and universal applicability of the Soviet way of life."<sup>78</sup> But it is here at the implementation stage where realizing these ideals suffered from fundamental contradictions. Formal Soviet ideology proclaimed insistently that the world can enjoy peace, as well as welfare and equality, but only if socialism was adopted everywhere.<sup>79</sup> Therefore, in order for this to occur, it had to be forced on some people or societies until there was stability. Moreover, only the leadership of the Soviet Union had the formula to achieve the socialism which will bring the wanted peace, welfare, and equality. So, the sum of the revolutionary spirit of Russia is that the Russian leaders know best how to bring peace to the world and if the world does not want to listen, then they had to make them listen, but only for their better good.<sup>80</sup> This is a prime example of just one of the fundamental differences between Russia and a society that is more democratized and used to coming to majority decisions through debate.<sup>81</sup> Leaders of all societies have to present a way ahead for their country and outline goals and programs which they feel will be best

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78 Frederick C. Barghoom. "Great Russian Messianism in Postwar Soviet Ideology," 531.

79 Ibid.

80 Margaret Mead. *Soviet Attitudes Toward Authority* (Westport, CT: Greenwood Press Publishers, 1951), 15-16.

81 Ibid., 15.

for the future.<sup>82</sup> The problem arises when a program such as communism has been proposed by a minority group, is implemented without regard to opposing views, disregards the rights of those that it affects, is absent of full debate of the benefits, and does not have an option of flexibility to correct for necessary changes. A counter-revolution, civil war, and widespread unrest were the result in Russia's case after the Bolshevik revolution that could only be stabilized over the long term through harsh reactionary measures that resulted in the totalitarian state programs. As a result the attitude and deep belief system that Russian leaders, the Soviet leaders, the Communist party, and central planning committee knew what was best for the country and the world only grew stronger and was passed on through the generations of Soviet rule through the network of state and party apparatus influenced ministries and other organizations like the KGB.

In a recent example, Russian president Vladimir Putin relayed a candid message that further supports such an attitude of centrism. It concerned Great Britain's demand that Russia extradite its citizen accused of murder on the British soil. Putin has refused on more than one occasion citing the Russian constitution's ban on extradition of its citizens. He said that "they should better change their brains than our constitution" and that "they in London have 30 persons hiding who are wanted by our law enforcement bodies for committing grave and especially serious crimes ... but London doesn't give a damn and gives refuge to people accused of committing especially serious crimes ... and

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<sup>82</sup> Margaret Mead. *Soviet Attitudes Toward Authority*, 15.

meanwhile they apply tougher standards to the others, including us. This includes handing out recommendations, which I think are insulting to our nation, to amend the constitution."<sup>83</sup> While Putin's response is defensive in this context, it clearly portrays a confident Russian attitude that the demands of Britain are ridiculous to them, especially since the superior Russian constitution will guide not only Putin's decision, but will be the guide for this international situation in general.

## **2. Opposing the Unipolar Hegemon**

Sixty years ago, an author known then only as "X" published an examination of the sources of Soviet conduct.<sup>84</sup> Now it is well known that it was written by George Kennan, the former ambassador to Russia who "saw and felt the interconnected problem of Europe, Russia, and America like no one else, nor from the same set of angle, or with the same intensity."<sup>85</sup> Before being published, its original form was a telegram from the U.S. Embassy in Moscow to the State Department, and its intent was to ensure that the political personality of the Soviets was understood so as to form a basis of successful U.S. policy of containment toward the Soviet Union for the future, which it did. Although the era of Soviet Union ended in 1991, Europe and especially the

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<sup>83</sup> Dmitry Solovyov and Guy Faulconbridge, "Putin Slams Britain Over 'Colonial Thinking' in Row," Reuters News Website, July 24, 2007. <http://www.reuters.com/article/worldNews/idUSL2478576020070724?feedType=RSS>, last accessed September 15, 2007.

<sup>84</sup> George F. Kennan, "The Sources of Soviet Conduct," *Foreign Affairs* (July, 1947), <http://www.foreignaffairs.org/19470701faessay25403/x/the-sources-of-soviet-conduct.html>, last accessed September 29, 2007.

<sup>85</sup> John Lamberton Harper. *American Visions of Europe: Franklin D. Roosevelt, George F. Kennan, and Dean G. Acheson* (Cambridge: Cambridge University Press, 1996), 176.

U.S. are again trying to understand the motivating factors that lead Russia to take confrontational stances on a variety of issues. It can be argue that Kennan's proposed policy of 'containment' may be relevant today, in the realm of political and economical influence, under Vladimir Putin's strategy of resurgence and movement to restore the status of Russia to greatness.<sup>86</sup>

There have been numerous issues where Russia has opposed western or more specifically U.S. policies and decisions that suggest a strategy to propel Russia's international status by drawing on the idea that opposition to the U.S. is a demonstration of Russia's strength. The beginning of Yeltsin's presidency was viewed with great optimism that relations with the West would develop well due to economic reform and the introduction of democracy in the political process. But, the second half of Yeltsin's rule saw some disenchantment as controversy over key issues grew, such as "the two Chechen campaigns, eastward expansion of NATO, the status of Kosovo, the war in Yugoslavia, the future nuclear balance between Russia and the U.S., and U.S. plans to build a missile defense system."<sup>87</sup> These souring issues reduced some of the progress that was being made in building a more interconnected relationship. In the early period after Putin came to power, much of the same cycle occurred where, due in part to circumstances of the terrorists attacks in Russia and the U.S., Putin sought to reestablish some common ground with the U.S. to improve

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<sup>86</sup> George F. Kennan, "The Sources of Soviet Conduct," *Foreign Affairs* (July, 1947), <http://www.foreignaffairs.org/19470701faessay25403/x/the-sources-of-soviet-conduct.html>, last accessed September 29, 2007.

<sup>87</sup> Andrei Zagorski, "Moscow Seeks to Renegotiate Relations with the West," *Russian Analytical Digest*, No. 26 (September 4, 2007): 2.

relations. Putin also saw Russia's economic revitalization proceeding only from its integration into the global economic system dominated by the advanced industrial democracies, which was something that could not be accomplished in an atmosphere of political or military confrontation or antagonism. Three main areas can be viewed as the catalysts in his desires to restart the relationship building process: "Russia's economic stabilization, energetic communication with Europe, and especially the immediate announcement of almost unlimited support for the U.S. in fighting terrorism after 9/11."<sup>88</sup> However, despite Russia's attempt to increase ties, reciprocity that would lead to changes was absent.

Due to the lack of reciprocity on the western side, the resulting Russian perception of an ungrateful and unfriendly West, and the stronger position of Russia fueled by economic and social progress brought on by increased energy revenue, Putin could confront when necessary rather than cooperate on some issues where the western policies were deemed in conflict with the national interests of Russia.<sup>89</sup> The areas of disagreement under Putin are relatively similar to those of Yeltsin, where the issue of Kosovo, NATO's eastern expansion, conventional forces in Europe, and a variety of other policies toward Russia's neighbors keep political progress at a slow pace.<sup>90</sup> A substantial statement supporting Russia's assertiveness in becoming a higher power

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<sup>88</sup> Andrei Zagorski, "Moscow Seeks to Renegotiate Relations with the West," *Russian Analytical Digest*, No 26 (September 4, 2007): 2.

<sup>89</sup> Quentin Peel, "A Cruder Kremlin : How Russia is Reasserting Itself as a World Power," *Financial Times*, (London: August 1, 2007): 9.

<sup>90</sup> Andrei Zagorski, "Moscow Seeks to Renegotiate Relations with the West," *Russian Analytical Digest*, No 26 (September 4, 2007): 2-3.



came from Sergei Lavrov, Russia's foreign minister, who wrote that "U.S. unilateralism had failed and that Russia was competing with it in an international market of ideas. As globalization has extended beyond the west, competition has become truly global. Competing states must now take into account differing values and development patterns. The challenge is to establish fairness in this complex competitive environment."<sup>91</sup> For Russia, confrontation on these issues seems to offer the same rewards that would have been true in the Soviet era: An increase in domestic support of the state's central authority against policies towards the U.S., where Putin and his party more directly reap this reward through support in opinion polls and elections; increased Regional influence, especially among some Former Soviet Republics; and increased power at the international level among other countries that also oppose U.S. policies such as Iran, China, and Venezuela.

#### **E. SOCIETY AND STRATEGIC CULTURE**

Under Putin the political and foreign policy elements of strategic culture -- combativeness and competitiveness, perceptions of foreign threat (especially from the U.S.), and political assertiveness have been increasingly prominent in Russia's foreign relations and mirrored by societal opinion as well, so much so that "Russia's return" as a demanding and leading power in the world was a dominant theme of commentary among pundits and politicians prior to the July 2006 summit of the G8, chaired by Putin in Russia. The ideology on which this reassertion is riding is

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<sup>91</sup> Quentin Peel, "A Cruder Kremlin : How Russia is Reasserting Itself as a World Power," *Financial Times* (London: August 1, 2007): 9.

essentially nationalism, replacing at least to a modest degree the role of communist ideology in Soviet times.<sup>92</sup> This nationalism, centered on Russia's interests, security, and influence as an international actor, is accompanied by assertions of a supra-national Russian mission, to advance a multi-polar world that contains U.S. power, to establish a Eurasian geo-political identity distinct from the West, and to combat perceived threats from Western culture. This new assertiveness is definitely fueled by the dramatic economic recovery of recent years that oil and gas revenues have stimulated.

The Putin regime declares its intent to use Russia's energy resources, and the tight supply situation prevailing in the global energy market, to make Russia a great energy power, even an energy superpower. A complete strategy for doing this has yet to be publicly articulated. But it clearly involves first, state domination of extraction; second, state monopoly of transport through pipelines; and third, efforts to push Russian business, increasingly dominated by the state, downstream into the processing, distribution, and marketing environments of consumer markets. Alarming to many is a clear readiness on the part of the Kremlin to use its energy clout on behalf of political-strategic interests such as the cases of Belarus and Ukraine. This was perceived not merely as a commercial dispute, but an effort to punish Ukraine for the pro-Western turn of its internal politics.

The combined effects of Putin's internal strategies that are more authoritarian and less democratic by western

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<sup>92</sup> Albert L. Weeks. *The Other Side of Coexistence*, 149-157.

standards – control over the energy industry, quieting oligarchic political opposition, and controlling the media in conjunction with his external strategies of confronting the policies of the west and the U.S. – have definitely impacted society as evidenced by results of opinion polls taken concerning these issues. The opinion poll results in Figure 1 show a society that clearly supports Putin and has a sense that Russia is an independent international leader, yet supports the fact that the country lacks a matured identification with democracy and does not yet rely on the rule of law as a guiding principle of justice.<sup>93</sup>

While Putin normally enjoys an overall approval rating that consistently tops 70%, in an April 2006 survey of Russians, 26 percent of respondents had a 'very favorable' opinion of President Putin and 59% had a 'somewhat favorable' view of him for a combined 85% who are more likely to support his policies.<sup>94</sup> While only an extremely small amount, 7%, viewed him 'somewhat unfavorably,' and 2% 'very unfavorably.'<sup>95</sup> The striking aspect of this survey is the extremely small amount – only 2% – who view him unfavorably.<sup>96</sup>

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<sup>93</sup> Michael McFaul, Nikolai Petrov, and Andrie Ryabov. *Between Dictatorship and Democracy: Russian Post-Communist Political Reform*, (Washington: Carnegie Endowment for International Peace, 2004), 286-287.

<sup>94</sup> World Public Opinion.org & Levada Center Poll, "Russians and Americans on the Iran Nuclear Program and Perceptions of Russia, the U.S., and China Questionnaire," April 14-24, 2006, [http://www.worldpublicopinion.org/pipa/pdf/may06/USRussia\\_May06\\_quaire.pdf](http://www.worldpublicopinion.org/pipa/pdf/may06/USRussia_May06_quaire.pdf), last accessed October 2, 2007.

<sup>95</sup> Ibid.

<sup>96</sup> Ibid.

Concerning the nationalization of the energy industry, again public support for the programs is widely supported in surveys where 85% support it, with a large majority 56% responding 'definitely.'<sup>97</sup> This is compared to only 7% opposed. And more surprising is that 65% of Russians would also support nationalizing other industries.<sup>98</sup> Moreover, a majority of Russians think their country will play a larger role on the world stage in the near future and sixty percent say Russia will become more influential over the next decade as indicated in Figure 2.<sup>99</sup> Thus, Putin's campaign to return Russia to a great country status is supported by the population not only through favoring him as a leader and the techniques mentioned above, but also Russians favor moving to a market economy and a strong, socially oriented state, as Figure 2 revealed in addition to Figures 3-6<sup>100</sup>:

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<sup>97</sup>.World Public Opinion.org & Levada Center Poll, April 14-24, 2006.

<sup>98</sup> Ibid.

<sup>99</sup> World Public Opinion.org, "Americans and Russians Agree U.S. is No. 1, But Disagree on the Up and Comers," July 10, 2006, [http://www.worldpublicopinion.org/pipa/articles/views\\_on\\_countriesregion\\_s\\_bt/225.php?nid=&id=&pnt=225&lb=breu](http://www.worldpublicopinion.org/pipa/articles/views_on_countriesregion_s_bt/225.php?nid=&id=&pnt=225&lb=breu), last accessed October 2, 2007.

<sup>100</sup> The results depicted in Figures 3-6 are all from: World Public Opinion.org & Levada Center Poll, July 9-14 in Russia and June 26 - July 2, 2006 in the U.S, [http://www.worldpublicopinion.org/incl/printable\\_version.php?pnt=224](http://www.worldpublicopinion.org/incl/printable_version.php?pnt=224), last accessed November 14, 2007.

Most Russians (71%) do not regard themselves as Europeans

- Almost half think that the EU is a potential threat to Russia and its financial and industrial independence
- A third see Europe as a neighbour and partner with whom a long-term relationship should be developed and enhanced — and half that number think that Europe sees Russia in the same way.
- Nearly half believe that there are many useful things to be taken from Western democracy and culture
- Nearly one third think that Western-style democracy does not suit Russia

### **Democracy and Responsibility**

- 65% of Russians find it hard to describe what democracy means
- 27% say that Russia has never been a democracy
- One in three prefer the Soviet system of government
- Just over a quarter of respondents consider democracy to be a fair governance system
- A third say that Russia currently is a democratic state, a quarter like its current system
- 94% feel that they have little or no influence over what happens in Russia

### **Rule of Law & Human Rights**

- A third of Russians are worried about serious human rights abuses
- Only 8% believe the judicial system to be completely independent from governmental control or corruption (31% gave no response)
- A majority does not feel protected by the law (68%)
- Nearly two thirds think that the authorities and state officials are above the law (60%)
- Only 4% believe that private property is secure
- Over a half (56%) believe that the judiciary should be wholly or partly controlled by the executive arm of the Government

Figure 1. Opinion Study on Democracy and Europe

<b>President Putin in the beginning of his second presidential term has stated the task to turn Russia into the competitive country on a world scene during the nearest 5-10 years. How realistic do you think it is?</b>				
		<b>Апрель 2004 г.</b>	<b>Апрель 2007 г.</b>	
Absolutely realistic		8	9	
Somewhat realistic		41	44	
Somewhat unrealistic		32	28	
Absolutely unrealistic		10	9	
<b>President Putin in the beginning of his second presidential term has stated the task turn Russia into the competitive country on a world scene during the nearest 5-10 years. How realistic do you think it is?</b>				
	<b>Total respondents</b>	<b>Approving/disapproving Putin's activity</b>		
		<b>Approving</b>	<b>Disapproving</b>	<b>Difficult to evaluate</b>
Absolutely realistic	9	10	2	4
Somewhat realistic	44	48	23	32
Somewhat unrealistic	28	25	43	35
Absolutely unrealistic	9	5	26	16
<b>Do you think Russia has become the competitive country during last 2-3 years?</b>				
	<b>Total respondents</b>	<b>Approving/disapproving Putin's activity</b>		
		<b>Approving</b>	<b>Disapproving</b>	<b>Difficult to evaluate</b>
Most likely it has	41	47	18	20
Most likely it has not	49	43	78	63
Difficult to answer	10	10	4	17
<b>What is necessary for Russia to become competitive power on a world scene? (Up to two responses)</b>				
		<b>April 2004.</b>	<b>April 2007.</b>	
To have developed modern economy		60	61	
To provide a high standard of living of citizens		47	49	
To have powerful armed forces		23	23	
To return to its leading positions in science and education		17	16	
To revive a high level of culture, national spirit		9	9	
To become the leader within the postSoviet countries		4	8	
To provide development of democracy and the human rights which are adopted in the civilized world		8	8	
To become "bridge" between the Europe and Asia, between the developed countries and 'the third world'		3	3	
Difficult to answer		7	4	

Figure 2. Opinion Poll Questions and Results for the International Competitive Power of Russia

### Russians on Recent Measures by Putin's Government

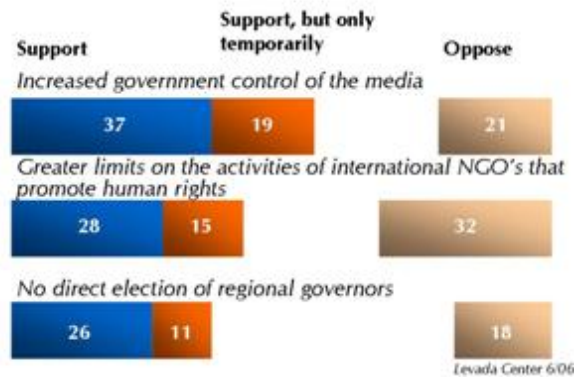


Figure 3. Russians on Recent Measures by Putin's Government

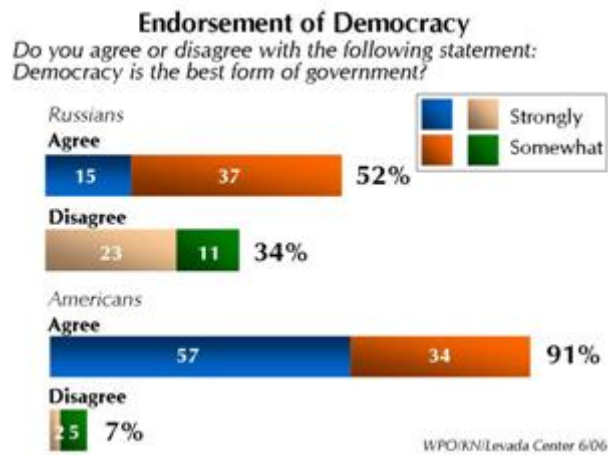


Figure 4. Endorsement of Democracy

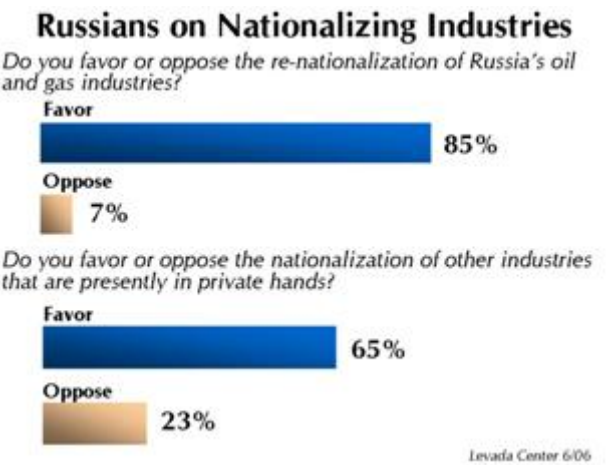


Figure 5. Russians on Nationalizing Industries

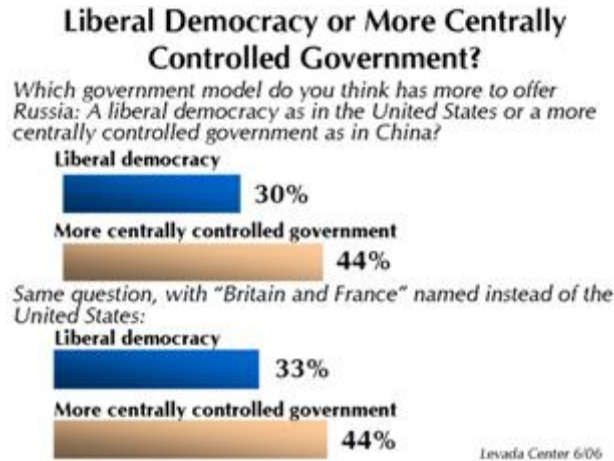


Figure 6. Support for Democracy or Centralized Government

Other poll results further support that the confrontational approach by Putin, in conjunction with nationalist appeal, is shaping public opinion about the U.S. in general, although the effects of the unpopularity of the war in Iraq may skew the data. When asked in May 2007 to name five countries that could be considered friends or allies of Russia, the U.S. only received 6% of the votes from Russian respondents, a drop from 11% in 2005 and far behind the top five countries of Kazakhstan (39%), Belarus (38%), Germany (24%), China (19%), and Armenia (15%).<sup>101</sup> Next, when asked to name which five countries are the most hostile and most unfriendly in relation to Russia the U.S. received 35% of the votes, up from 23% in 2005.<sup>102</sup> That was enough for the U.S. to be ranked in the top five, coming in at fourth behind Estonia (60%), Georgia (46%), Latvia (36%), and just ahead of number five Lithuania (32%). While telling as the polls are about the views of Russians generally, it remains difficult to draw any concrete

<sup>101</sup> Andrei Zagorski, "Moscow Seeks to Renegotiate Relations with the West," *Russian Analytical Digest*, No 26 (September 4, 2007): 6-7.

<sup>102</sup> Ibid.



conclusions from these surveys as far as trying to determine what came first – did the public support for nationalist and confrontational policies motivate the Kremlin to adopt them, or did Putin’s widespread popularity influence public support for the policies? A likely answer probably includes the constant interaction of both the views and attitudes of the Russian people and the influence of the Kremlin that worked together to influence and shape the outcomes.<sup>103</sup> From a western point of view, it can also be assumed that a majority of people would not agree with these less democratic policies as they are counter to necessary structures that permit the west to enjoy our fundamental freedoms of a capitalist democracy. However, from the Russian point of view, their shared strategic culture formed at the intersection of their own political, economical, military, and societal structures and experiences offers a valuable insight to the effects of strategic culture that transcends time, regimes, and circumstances.

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<sup>103</sup> Lilia Shevtsova. *Putin’s Russia* (Washington: Carnegie Endowment for International Peace, 2005), 172-173.

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### III. EUROPEAN ENERGY DEPENDENCE

#### A. EUROPEAN DEMAND

Most European countries are heavily reliant upon imported energy. Geographically, most of Europe has only an abundance of coal, most notably Germany and Poland. There are some small oil reserves, with Romania at the top of that list, and a limited amount of natural gas mostly produced by Norway.<sup>104</sup> The larger industrial rich economies of England, France, Germany, and Italy must seek cooperative agreements with other nations in order to provide for the energy needed to maintain industry, manufacturing, and domestic use. Norway has been able to provide natural gas on a larger scale due to offshore gas reserves, but any resources of other countries are small in comparison and make up only a fraction of oil and natural gas production for Europe as a whole. The European countries continue to demand available and reliable supplies of oil and natural gas to support further economic growth. Due to the natural geography and proximity of Russia to Europe, a partnership of Europe and Russia is a necessity and Figure 7 clearly illustrates the extensive pipeline infrastructure that reaches much of Europe.<sup>105</sup>

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<sup>104</sup> Richard Overy. *Why The Allies Won* (New York, NY: W.W. Norton & company, 1995), 228-235.

<sup>105</sup> Energy Information Administration (EIA), "Russia: Country Analysis Brief," <http://www.eia.doe.gov/emeu/cabs/Russia>, last accessed October 21, 2007.



Figure 7. Oil and Gas Pipelines to Europe

In fact, building and maintaining this relationship is so important to future energy security that the European Union concentrates on this relationship as their number one energy security priority and formalized it through the 2000 EU-Russian Energy Dialogue.<sup>106</sup>

<sup>106</sup> Vince L. Morelli, "The European Union's Energy Security Challenges," Congressional Research Service Report for Congress, September 11, 2006, 10.

## B. IMPORTS AND CONSUMPTION

Looking at just the 25 EU member states, these countries consumed approximately 17% of the world's total energy consumption in 2005. Of that amount, 80% was provided by fossil fuels, with the two largest portions being oil, 40%, and natural gas, 24%.<sup>107</sup> Europe relies on Russia for about 30% of its oil imports and about half of all imported gas.<sup>108</sup> For oil, consumption is estimated to remain at a steady level of demand as steps are taken to reduce the use of oil, improve efficiency, and convert some oil needs over to natural gas, which has become the more preferred, cleaner, and cheaper fuel. However, natural gas consumption is expected to increase in the future, and if natural gas needs increase, then imports will have to increase as well.

Of the gas that is extracted within European countries, most comes from British, Dutch, Italian, Romanian, German, and Danish fields. The remaining needs are fulfilled by Russia, Norway, and Algeria.<sup>109</sup> Russian gas imports account for 26 percent of EU consumption, representing 40 percent of the imported gas consumed by households and businesses.<sup>110</sup> By country, the story takes an even more interesting shape

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<sup>107</sup> Vince L. Morelli, "The European Union's Energy Security Challenges," Congressional Research Service Report for Congress, September 11, 2006, 5-6.

<sup>108</sup> Ahto Lobjakas, Radio Free Europe Website, "EU: Brussels Mulls Over Its Energy Sources," June 2, 2006, <http://www.rferl.org/featuresarticle/2006/06/EC9C0BEF-10C7-43B4-8BAD-F9612FC6317E.html>, last accessed August 2, 2007.

<sup>109</sup> Mark Smedley, "What Diverse New Gas Flows Might Get Into Europe," World Gas Intelligence, January 11, 2006.

<sup>110</sup> Jonathan P. Stern. *The Future of Russian Gas and Gazprom* (Oxford: Oxford University Press, 2005), 143, Table 3.6, "European Dependence on Russian Gas Supplies, 2003."

shown in Figure 8.<sup>111</sup> Finland and Slovakia domestic consumption relied exclusively on Russian gas imports in 2005. Bulgaria, Greece, and the Czech Republic are in the second tier with 89%, 96%, and 84% respectively. And other notable countries that rely heavily on Russian import natural gas are Hungary, 62%; Turkey, 65%; Austria, 70%; Poland, 47%; and Germany 43%. Lower on the dependency scale are the countries of Italy, 30%, France, 26%, Romania, 23%, and Switzerland, 12%.<sup>112</sup>

<b>TABLE 4: Major Recipients of Russian Natural Gas Exports, 2005</b>			
<b>Rank</b>	<b>Country</b>	<b>Imports (bcf/year)</b>	<b>Pct of Domestic IG Consumption</b>
1	Germany	1,291	43%
2	Italy	824	30%
3	Turkey	630	65%
4	France	406	26%
5	Hungary	294	62%
6	Czech Republic	252	84%
7	Austria	246	70%
8	Poland	226	47%
9	Slovakia	226	108%
10	Finland	148	105%
11	Romania	140	23%
12	Fmr Yugoslavia	134	57%
13	Bulgaria	101	89%
14	Greece	85	96%
15	Switzerland	13	12%
<b>Sales to Baltic &amp; CIS States, 2005'</b>			
	Ukraine	2,113	79%
	Belarus	710	100%
	Baltic States	205	100%
	Azerbaijan	120	36%
	Georgia	46	100%
*Includes some re-exports of Central Asian gas. Source: EIA, BP (2006), CIS and E. European Energy Databook, 2006.			

Figure 8. European Dependence on Russian Natural Gas

<sup>111</sup> EIA, "Russia: Country Analysis Brief," <http://www.eia.doe.gov/emeu/cabs/Russia>, last accessed October 21, 2007.

<sup>112</sup> EIA, "Russia: Natural Gas," Country Analysis Briefs, <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>, last accessed August 2, 2007.

The instances in Ukraine and Belarus where Russia cut off gas supplies to these countries because of price disputes have raised the concern level for leaders of many of these consumer countries. The leaders know that they are too dependent on Russian energy and are seeking ways to reduce this dependency. The next two sections will first explore long-term contracts with Russia as a way to build confidence, create lasting positive relationships, and ensure reliable energy sources in the future; and second, will examine alternate energy resource strategies that aim in reducing oil and natural gas consumption in general.

### **C. LONG TERM CONTRACTS**

There are several examples of European countries individually negotiating long-term energy contracts with Russia. Germany and Italy are the two largest importers of Russian gas by volume, and both have negotiated long-term deals with Russia to ensure access to future gas supplies and improve their sense of security when it comes to meeting energy needs.<sup>113</sup> While negotiating a contract is a relatively safe way to conduct business from the perspective of self-interest, it may not be the best method after considering who you are dealing with and the methods that Russia has used in the past. Russia has played hard ball with Ukraine and Belarus, cutting off their supplies in price disputes which should serve as an obvious warning to any consumer country. The Russian strategy of entering into a deal with a single country is simple: Divide and conquer. If each European country were to sign an independent deal

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<sup>113</sup> Vince L. Morelli. "The European Union's Energy Security Challenges," 12.

with Russia, then each country could face similar coercive energy tactics in the future. The seemingly obvious solution is for the European countries to determine a unified energy position and negotiate with Russia as a community. In fact, recently the EU has developed the Energy Charter, but the Russian Duma has refused to ratify it mostly because it calls for greater competition in the monopolistic Russian industry.<sup>114</sup> Energy security is a problematic and perplexing issue for the EU and evidence of this is that the 25 EU member states are still unclear on how best to proceed. If they were to understand how, as a whole, that Russia is dependent on them for a major part of their state revenue, then using that weakness to leverage long-term contracts that apply to the entire EU would indeed be beneficial in attempting to strike a bargain that could satisfy both the consumer and supplier. Because Russia will not sign the European Energy Charter agreement, the conclusion should be clear that at least Russia understands what is at stake for them--a loss of power, control, and leverage over the European market.

Another example is the Baltic Sea pipeline, labeled as the North Transgas in Figure 9, but renamed as the 'Nord Stream.'<sup>115</sup> This pipeline is planned to deliver Russian natural gas directly to Germany and since transit fees are

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<sup>114</sup> Ariel Cohen, "The North European Gas Pipeline Threatens Europe's Energy Security," *The Heritage Foundation*, Background No. 1980, (October 26, 2006): 8-9.

<sup>115</sup> EIA, "Russia: Natural Gas," Country Analysis Briefs, <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>, last accessed August 2, 2007.



not required since it does not pass through any other countries, the gas will be less expensive.<sup>116</sup>



Figure 9. Natural Gas Lines and Proposed Nord Stream

While it is intended to also go on to service the Netherlands, France, and later the U.K., the greatest benefit is to Russia. With building the Nord Stream, Russia will further diversify their distribution network for themselves, reduce cost, and increase dependency of another consumer. The key aspect is building a diversified network, which is especially important when you consider the Belarus

<sup>116</sup> Ariel Cohen. "The North European Gas Pipeline Threatens Europe's Energy Security," 1.

case. When Russia cut the gas to Belarus, the pipeline also went on to service Germany. Germany considered the interruption as unacceptable, and spoke out along with the EU to urge Belarus and Russia to quickly end the dispute.<sup>117</sup> If this same scenario were to play out after the Baltic pipeline was completed and no common European energy position existed, then it would not quite matter as much to Germany or any other country that Belarus lost their source of gas. Moreover, Germany or other countries may not be as motivated to respond and call for a quick settlement between Belarus and Russia. Long-term contracts are an important part of energy dependence for Russia. Russia serves to gain leverage from individual contracts with states, but will relinquish some negotiating power if contracting with the EU as a whole. Therefore, a conclusion should be drawn that while Russia is not overly dependent on any single country, they are dependent on Europe as a whole.

#### **D. EUROPE'S STRATEGY TO REDUCE ENERGY NEEDS**

Europe's dependence on imported energy, particularly natural gas, is expected to grow at least over the next twenty years and the only way to satisfy the demand is through imports. Current estimates predict that 70% of Europe's energy requirements by 2030 will be imported.<sup>118</sup> As a result, the EU Directorate-General for Energy and

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<sup>117</sup> Radio Free Europe Website, "EU: 'European Chancellor' Merkel Seizes Spotlight in Davos," January 24, 2007. <http://www.rferl.org/featuresarticle/2007/01/F27FACED-B063-433F-AA64-3DDC4877E3F6.html>, last accessed July 29, 2007.

<sup>118</sup> Vince L. Morelli. "The European Union's Energy Security Challenges," 21.

Transport has outlined three common energy policy goals.<sup>119</sup> The first common goal is competitiveness. The goal deals with creating internal market competition through interconnections of energy supply, the electricity grid, and research and innovation. Increased competition would result in lower cost and provide the incentive to seek alternate sources of energy. The second goal is centered on the environment and seeks to encourage energy efficiency and increase the use of nuclear power and renewable energy sources such as hydro, wind, solar, and bio-mass. The third goal is to secure and diversify energy sources.

Currently, there are approximately 175 nuclear reactors in operation across Europe, which provide nuclear power for about one-third of Europe's overall electrical generation.<sup>120</sup> While some countries such as France, Finland, Sweden, and the U.K. rely heavily on nuclear power and see it as a clean energy source, other countries such as Germany and Spain have plans to phase out nuclear power and replace it with natural gas due to the dangers it poses along with waste disposal problems.<sup>121</sup> Overall though, the addition of nuclear reactors is not considered a viable substitute to burning fossil fuels for energy across Europe due to the high up front costs to build nuclear reactors, the controversial nature of waste disposal, and perceived

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119 The European Union Energy Commission has published several supporting documents that further detail the text of the EUs "Green Paper: A European Strategy for Sustainable, Competitive, and Secure Energy." These documents include: Commission Working Document, Press Release, Slides Presentation, Explanatory Memo, and Fact Sheet, and can be found on their website. [http://ec.europa.eu/energy/green-paper-energy/index\\_en.htm](http://ec.europa.eu/energy/green-paper-energy/index_en.htm), last accessed October 2, 2007.

120 Vince L. Morelli. "The European Union's Energy Security Challenges," 22.

121 Ibid., 22.

risks of nuclear accidents or contamination. Hydro, wind, solar, and bio-mass energy currently accounts for around 15% of Europe's electrical generation. While these alternate sources of energy can contribute greatly to increased diversification of energy supply, the costs for implementation are also prohibitive in the short-term. Tremendous investment is needed to build and deliver these energy sources over many years. Thus far, this expanding market has been incrementally funded and expanded, and while goals are seemingly ambitious, they continue to account only for small percentages on the periphery. An example is that while the EU has set a 2010 goal to convert petroleum and diesel consumption to bio-fuels, it is only intended to account for 5.75% of consumption, and 21% of electricity should be generated from these renewable sources, but that is only a 6% increase from the 2005 usage of 15%.<sup>122</sup> While these strategies can add diversification to meet Europe's energy needs, natural gas consumption continues to be more economical and thus market forces help contribute to ensuring Russia will be needed in the future to supply oil and natural gas to the European market.

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<sup>122</sup> Vince L. Morelli. "The European Union's Energy Security Challenges," 23.

## IV. RUSSIAN ENERGY

### A. INTRODUCTION

From 1991 to 2006, Russia was to the global natural gas industry what Saudi Arabia was to oil, controlling over 32 percent of the world's proven gas reserves and approximately 27.5 percent of international gas production.<sup>123</sup> Russia's portion of worldwide total proven reserves dwarfed its nearest competitors Iran (15 percent), Qatar (7 percent), Saudi Arabia and the UAE (4 percent), and the United States and Algeria (3 percent), and was nearly ten times the size of proven reserves in the Caspian region.<sup>124</sup> In spite of the fluctuation in domestic gas production, which peaked in 1991 at approximately 23 tcf (trillion cubic feet), and slipped to a low of 20.2 tcf in 1997 before recovering to 20.6 tcf from 1998-2006 – Russia remained the largest exporter of natural gas, controlling as much as 50 percent of the world's gas pipeline exports during the period.<sup>125</sup> The regional structure of the gas sector accentuated

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<sup>123</sup> Matthew J. Sagers, "The Energy Industries of the former USSR: A Mid-Year Survey," *Post-Soviet Geography* Vol. 34, No. 6 (1993): 377; and International Energy Agency (IEA), *Russian Energy Survey 2002* (March 2002): 111-116.

<sup>124</sup> Adam N. Stulberg. *Well-Oiled Diplomacy*, 66-67.

<sup>125</sup> EIA, "Russia Country Analysis," November 2002; EIA, "Caspian Sea Region: Reserves and Pipelines Tables," July 2002; IEA, "Caspian Oil and Gas: The Supply Potential of Central Asia and Transcaucasia" (Paris: OECD, 1998): 112; Fiona Hill and Florence Fee, "Fueling the Future: The Prospects for Russian Oil and Gas," *Demokratizatsiy*, Vol. 10, No.4 (Fall 2002): 468.

Russia's stature.<sup>126</sup> Russia was Europe's leading gas supplier, as it inherited a 25 percent stake in the established hard currency markets of Western Europe. Over the course of the decade, Russian deliveries increased to cover 42 percent of the European Unions expanding demand. In addition, Russia dominated gas export markets in Eastern Europe and the former Soviet Union, initially controlling over 80 percent of the supply to both regions.<sup>127</sup>

The Russian oil sector was hit hard by the Soviet collapse. After successive years of decline, production bottomed out by 1996, contracting roughly 47 percent from its peak in 1987 when the Soviet Union led the world in national output. This was primarily due to the virtual collapse of investment that curtailed new drilling and the industry's capacity to increase recovery from depleted fields. In contrast to the peak of Soviet production and power, when exports accounted for nearly 90 percent of the republic's 5 million barrels per day (bbl/d), an independent Russia's net exports dropped drastically to 3.2 million bbl/d from 1993 to 1995.<sup>128</sup> Similarly, crude oil transport via the Russian pipeline system in 1996 accounted for only 56 percent of the 1990 throughput. However, by the end of the 1990s, the Russian oil industry seemed to be recovering from that decline. Domestic production and exports both increased during the time frame of 1999 to 2003 in response

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<sup>126</sup> IEA, "The IEA Natural Gas Security Study" (Paris: OECD, 1995); and Leslie Dienes, Istvan Dobozi, and Marian Radetzki. *Energy and Economic Reform in the Former Soviet Union* (New York: St. Martin's Press, 1994).

<sup>127</sup> European Commission, "Toward a European Strategy for the Security of Energy Supply," EU Green Paper (2001): 24.

<sup>128</sup> Adam N. Stulberg, *Well-Oiled Diplomacy*, 71.

to rising world oil prices, devaluation of the ruble, and growing confidence in the investment climate in Russia.<sup>129</sup> Oil companies pumped out 7.59 million bbl/d in 2002--more than 25 percent increase over the 1998 level. This positioned Russia as the world's leading producer in 2002 for the first time since the fall of the Soviet Union.<sup>130</sup> Moreover, by 2006 Russian oil production averaged 9.6 million bbl/d, and again this amount was only second in the world to Saudi Arabia.<sup>131</sup> But all of this expansion is not without constraints such as pipeline output limitations, domestic consumption, poor quality of crude compared to growing long-term demand for higher quality of crude from competitors, underdeveloped regional oil infrastructure, and concerns that consumption growth would outpace the rates of reserves replacement.<sup>132</sup>

In order to draw conclusions regarding Russia's dependence on European energy demand, three areas will be detailed. First, a statistical analysis of Russian oil and gas reserves, production, and exports will be outlined to answer the question: How important are oil and natural gas revenues to Russia? Second, European supply and demand will be analyzed with respect of supply sources, consumption, long-term contracts, and energy reduction strategies in order to determine the extent of the demand of oil and natural gas in Europe. And third, based on the answers to both of these questions a Strengths, Weaknesses,

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<sup>129</sup> Adam N. Stulberg, *Well-Oiled Diplomacy*, 71.

<sup>130</sup> Ibid.

<sup>131</sup> EIA, "Country Analysis Briefs: Russia." <http://www.eia.doe.gov/emeu/cabs/Russia>, last accessed February 7, 2007

<sup>132</sup> Adam N. Stulberg. *Well-Oiled Diplomacy*, 71-75.

Opportunities, Threats (SWOT) analysis will be addressed in the conclusion to answer the interrelated question: What are the threats and risks that Russia faces from reduced demand in Europe? Together the answers to these questions will explain Russian energy dependence on European demand.

## **B. RUSSIAN OIL AND NATURAL GAS EXPORTS**

Russia is important to world energy markets because it contains the world's largest natural gas reserves and the eighth largest oil reserves.<sup>133</sup> Reserves in coal are substantial as well, having the second largest coal reserves, but coal is a less used fossil fuel for meeting export energy demands and has been used less over the years. Therefore oil and natural gas dominate energy export for Russia and is the main focus of this thesis. Figures 10 and 11 illustrate the vast oil and natural gas resource deposits, pipelines, and other energy related infrastructure that stretches across Russia.<sup>134</sup>

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<sup>133</sup> EIA, "Country Analysis Brief: Russia," <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>, last accessed August 2, 2007.

<sup>134</sup> Ibid.



Major Russian oil basins



Figure 10. Oil Basins and Infrastructure

Major Russian gas basins



Figure 11. Natural Gas Basins and Infrastructure

## 1. Oil and Natural Gas Reserves and Production

In the oil sector, Russia ranks eighth in the world, only behind OPEC countries, with known oil reserves at 60 billion barrels, as shown in Figure 12, and an additional estimate of 67 billion barrels that were technically possible to exist but remain unproven.<sup>135</sup>

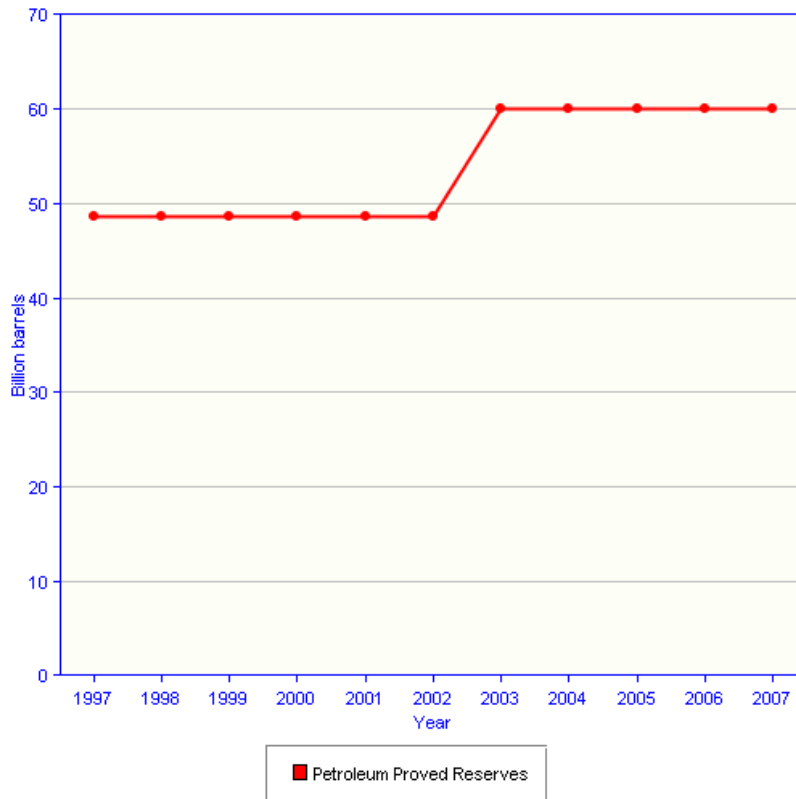


Figure 12. Petroleum Proved Reserves

Compared to Saudi Arabia, who leads the world in known oil reserves at approximately 300 billion barrels, it is easy to see that an increase in known barrels for Russia would draw them closer to the top power rungs concerning oil. Production and export of oil is of even greater

importance for Russia since there are high revenues from exports. Although Russia is eighth in the world in known oil reserves, they are second in the world for production and export. Russian oil production in 2006, as shown in Figure 13, averaged 9.6 million barrels per day, and again this amount is only second in the world to Saudi Arabia.<sup>136</sup>

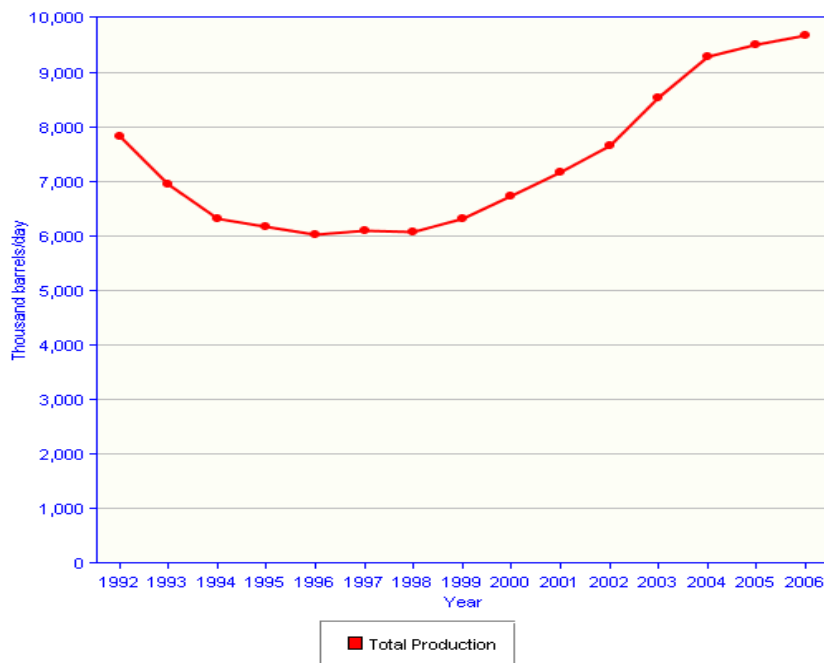


Figure 13. Annual Total Oil Production

Moving to the natural gas sector, Russia ranks first in the world in natural gas reserves, with 1,680 Trillion Cubic Feet, which accounts for 27.5% of the world total, and is nearly twice as much as the second place country, Iran.<sup>137</sup> When comparing it to other countries that supply natural gas

<sup>135</sup> EIA, "Major Non-OPEC Countries' Oil," June 2005, <http://www.eia.doe.gov/cabs/opecnon.html>, last accessed August 2, 2007.

<sup>136</sup> EIA, "Country Analysis Brief: Russia," <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>, last accessed August 2, 2007.

<sup>137</sup> EIA, "International Energy Annual, 2006," 38-39, <http://www.eia.doe.gov/iea/>, last accessed August 2, 2007.

to European countries, Russian reserves dwarf the combined totals of Norway, Algeria, and the Netherlands, which is a mere 5% of world totals.<sup>138</sup> For production, Russia again holds the number one position with 21.8% of world totals, shown in Figure 14, and followed closely only by the United States at 19%, much of which is consumed domestically.<sup>139</sup>

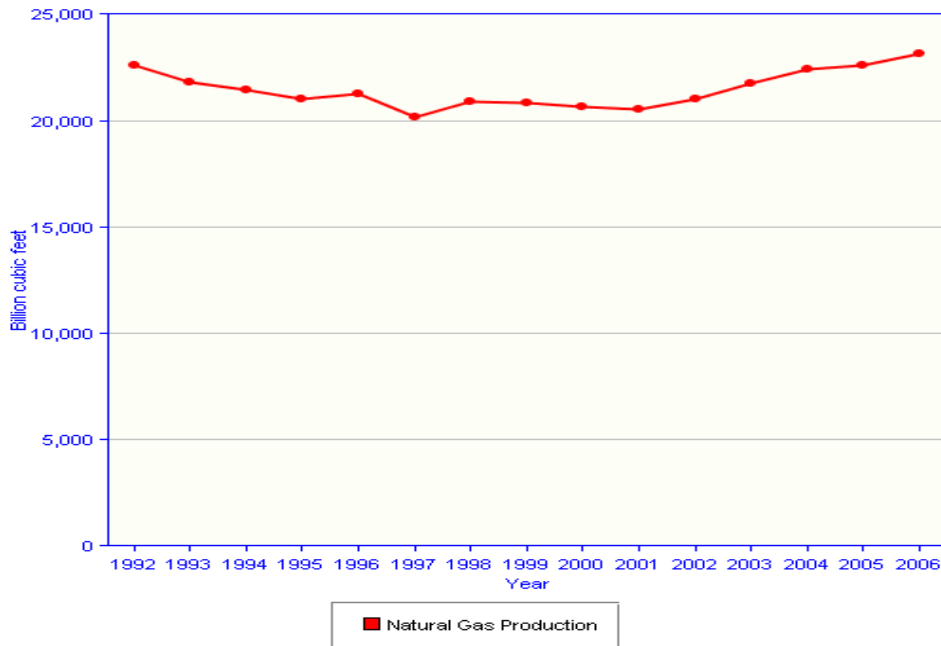


Figure 14. Natural Gas Production

When comparing the world's natural gas supply, three-quarters of the reserves lie in Russia, Eurasia, and the Middle East. This is particularly important when you look at the export routes to reach Europe, where 100 percent of Russian exports are through pipelines – faster, easier, and cheaper. In fact, 100 percent of Russian natural gas

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<sup>138</sup> EIA, "International Energy Annual, 2006," 39, <http://www.eia.doe.gov/iea/>, last accessed August 2, 2007.

<sup>139</sup> Ibid., 40.

exports to all countries are through pipelines.<sup>140</sup> To be sure, oil and gas are strategic strengths for the Russian state and due to geography exporting to Europe is the most efficient method to get those resources to the consumers.

## **2. Exports to Europe**

Oil and natural gas exports have been a major driver for Russia's economic sustainment for many years, and more recently they are one of the most important aspects of the economic growth they have seen in the last several years. Since this growth is viewed as renewed strength for the country, the importance of keeping oil and natural gas exports strong has been central to Russian security policy. For oil, almost three-fourths of Russian crude oil production is exported, or around 6.7 million barrels per day.<sup>141</sup> Of the oil that was exported, two-thirds went to Belarus, Ukraine, Germany, Poland, and other destinations in Central and Eastern Europe.<sup>142</sup> This is very significant and shows a major dependency burden that Russia suffers by relying on the European market. At the same time though, it also leads one to believe that exporting to Europe is the most economically maximizing way to translate these natural resources into state revenue. For natural gas, Russia has historically exported to Eastern Europe and to Former Soviet Republics.<sup>143</sup> However, of the 7.1 Trillion Cubic Feet (Tcf)

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<sup>140</sup> EIA, "International Energy Annual, 2006," 39, <http://www.eia.doe.gov/iea/>, last accessed August 2, 2007.

<sup>141</sup> Bernard A. Gelb, "Russian Oil and Gas Challenges," Congressional Research Service Report for Congress (January 3, 2006): 3.

<sup>142</sup> Ibid.

<sup>143</sup> EIA, "Country Analysis Brief: Russia," <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>, last accessed August 2, 2007.

exported in 2006, more than 65% went to European states, with Germany, Italy, Turkey, France, Hungary, and Finland consuming much of it.<sup>144</sup> While the natural gas sector has other markets to diversify export and revenue reliance as compared to the oil industry, such as central and east Asia, Russia continues to focus more on the European market based on the same demand and efficiencies of the oil industry. One extra distinguishing factor for Russia's added emphasis on natural gas exports to Europe is that Europe desires and prefers cleaner and cheaper natural gas as opposed to oil.<sup>145</sup>

### **3. Revenues**

Revenues from oil and natural gas are significant for Russia, and accounted for 37% of the state budget revenues in 2005.<sup>146</sup> As oil prices continued to grow after 2000, Russia saw the profits from the increase of revenues. These profits came at a very important time. Russia was still crawling along after being bankrupt in the late 1990s, and the economy was sputtering along. Oil and gas accounted for 50% of all export earnings in 2005.<sup>147</sup> Additionally, the oil export revenues also have been used to pay off Russia's large foreign debt, "around \$108 billion as of April 2005."<sup>148</sup> So, the price of oil and any fluctuations are of

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<sup>144</sup> EIA, "Country Analysis Brief: Russia," <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>, last accessed August 2, 2007.

<sup>145</sup> The Brookings Foreign Policy Studies, "Energy Security Series: The Russian Federation," 12.

<sup>146</sup> Ibid., 6.

<sup>147</sup> EIA, "Major Non-OPEC Countries' Oil," June 2005, <http://www.eia.doe.gov/cabs/opecnon.html>, last accessed August 2, 2007

<sup>148</sup> Ibid.

considerable importance to Russia since they affect state revenues immensely. Moreover, reductions in revenues from oil will also reduce any reinvestment in infrastructure, technology, or future growth and efficiency in the industry. Conversely, price stability at the high end of historical prices lead to progressively easier investments in the future which fuel even more economic growth and increases to Russia's GDP.

As stated earlier, Russia's GDP has grown steadily over the last several years. The first real jump was in 2000, where GDP grew 10%, and although slower, it continued to grow at a positive rate, ranging anywhere from 4.3% to 7.3% from 2001 through 2005.<sup>149</sup> For 2006, the GDP was estimated to continue the same strong growth and it came in at 6.5%.<sup>150</sup> Russia's economic dependence on both oil and gas revenues is substantial and unlikely to decrease in the near future. If energy prices fall or even remain flat, Russia's economic growth will slow considerably. Therefore, as stated before, the European market for oil is nearly two-thirds of Russian oil exports and the European market for natural gas is nearly two-thirds of Russia's export. Also, in 2005, 37% of the Russian state revenue was based on oil and natural gas exports, of which, an estimated two-thirds came from European consumption. Hence, nearly one-quarter of the Russian state revenue is sourced through oil and natural gas exports in response to European energy

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<sup>149</sup> EIA, "Major Non-OPEC Countries' Oil," June 2005, <http://www.eia.doe.gov/cabs/opecnon.html>, last accessed August 2, 2007.

<sup>150</sup> The Economist Intelligence Unit. "Russia Economy: Quick View - GDP Growth Eases," December 14, 2006.

consumption. This is a significant portion by any standard or measurement and translates into an important Russian reliance on European consumption.

#### **4. Energy Strategy**

While energy strategy takes on many aspects, the major focus for Russia has been to systematically use its vast natural energy resources as a vital tool of political negotiations and economic maturity. Substantial energy resources are central to Russia's energy policy and they are being used to rebuild the state's power and influence on the international level. Moreover, the dependence of other countries on Russian supply of these resources has acted as a source of state leverage in political negotiations, particularly with Former Soviet Republics.

In order to fulfill this strategy, state control of energy companies and the natural resources that they extract, produce, and export is the primary method necessary to safeguard this power in order to reemerge with greater global influence. In the 1990s, the government, under Yeltsin and early on under Putin, went on a limited campaign to attempt privatization and liberalization of many gas and energy companies. Although the plan and execution were flawed in some ways, western democracies at least saw this attempt at liberal, free-market economy practices as a step in the right direction; however, after 2000 the world oil prices began to climb, Russia saw significantly increased revenues from oil, and by 2003 some company executives like Yukos Oil CEO, Mikhail Khodorkovsky, had become millionaires seemingly overnight via Russia's rich natural resources previously owned by the state. The Kremlin realized that



oil and natural gas were Russia's most valuable resource; thus, the government moved to gain more control over these industries. Putin's government banned the planned market restructuring of the centralized gas monopoly Gazprom, ensured continued state ownership of all pipelines, owned all export companies, and enabled the state or state-owned companies to acquire other energy companies such as Sibneft and Yukos.<sup>151</sup> Additionally, the Sakhalin-II project, which promised a significant long-term increase in exports and revenue to and from the Asian markets, was renegotiated, since previous contracts were made in 1994 and no longer fair according to Putin's government. The foreign companies owning rights to Sakhalin II, such as Royal Dutch Shell, Mitsui & Co, and Mitsubishi were forced to sell some shares of the project to Gazprom in order for Gazprom to control 51% of the consortium or they would be forced to pay inexorably high environmental fines.<sup>152</sup> The tightening of government control over the production, transport, and export of energy in many ways is a clear indication of the importance that Russia places on this industry as a strategic national interest.

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<sup>151</sup> Martha Brill Olcott, "The Energy Dimension in Russian Global Strategy: Vladimir Putin and The Geopolitics of Oil," The James A. Baker III Institute for Public Policy, of Rice University, October 2004.

<sup>152</sup> Lionel Beehner, "Russia's Energy Disputes," Council on Foreign Relations Backgrounder, January 3, 2007, <http://www.cfr.org/publication/12327/>, last accessed July 29, 2007.

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## V. CONCLUSIONS

### A. STRATEGIC CULTURE AND PAST ACTIONS

It is clear that there are certain elements of Russian strategic culture that have remained intact over history as Colin Gray would argue should be the case since strategic culture changes only slowly over time.<sup>153</sup> Soviet strategic culture is a fitting example to use when attempting to explain and compare the continuity of Putin's policies and the reasons are simple. First, the Soviet Union is one of the most studied and documented political structures because it existed very recently and lasted a long time. Also it was studied in great detail since the stakes were high, the danger was real, and the consequences of not understanding Soviet thought may have led to nuclear war, dismantling of western capitalism, and even destruction of western countries.

Domestically, Putin has halted some of the progress made towards a more democratic Russia. The primary method has been to consolidate central state power that was lost after the fall of the Soviet Union and to regain ground in some of the same areas the Soviets dominated. The examples in Chapter II concentrate on the more apparent cases that are considered negative for Russian chances of democratic development and include the increase of the executive branch's power, state takeover of a business on the grounds of national security interests, and the control of major

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<sup>153</sup> Colin S. Gray, "Strategic Culture as Context: The First Generation of Theory Strikes Back," *Review of International Studies* 25 (1999): 52.

national media outlets. But it is also important to point out that this was not achieved solely by Putin and his inner circle, rather there was consent from like minded people both in society at large as well as the elites. And since consent was present, the Kremlin is less constrained in its choices to move toward more authoritarian domestic policy and strategy. The same can be said of the more confrontational foreign policy strategy which resembles *realpolitik* as Putin repeatedly mentions the return to a multi-polar world. Russia's renewed vigor to oppose the West is "driven by a blend of national resentment and ambition ... in pursuit of those valuable if intangible national interests: Honor and respect."<sup>154</sup> Therefore, the ability to exert Russian influence in a confrontational manner at the international level, bolstered by these same societal and nationalist appeals to return to Russian greatness will likely ensure Russia's continuation of the current foreign policy approach. But this is not to say that every issue for Russia will become a cause for a confrontation. Rather, Russia will employ a calculated approach that weighs all aspects of the situation at hand to ensure that if they must confront the political or economic policies of another country, then their cause will be viewed legitimate to themselves first. This means that some variable of circumstances surrounding a particular issue must have changed from the past so the status quo is no longer acceptable based on the new situation. A second factor will be that the interests are of national

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<sup>154</sup> Robert Kagan, "End of Dreams, Return of History," *Policy Review*, The Hoover Institution, No. 144 (August & September 2007), <http://www.hoover.org/publications/policyreview/8552512.html>, last accessed October 2, 2007.

importance; and third, that the position will be supported domestically. Thus, the threat that Russia will deny energy resources that are needed by European countries is real. But the likelihood or probability that Russia would act in such a way is more difficult to determine. Strategic culture and past actions do not mean that it is bound to happen, only that it could occur. The current calculus and balance of power and interest in the situation must further be analyzed to illuminate a better understanding.

#### **B. EUROPEAN DEPENDENCE**

European dependence on energy in the near and distant future will continue. The impacts of energy dependence are of vital importance and affect the region strategically. While energy dependence is seen as a negative factor in leveraging political negotiations, there is no apparent quick fix to this predicament. A majority of European countries rely heavily on oil and natural gas from Russia and this is not likely to change in any drastic way due to the high efficiency and low transaction costs of receiving these resources through direct and indirect pipelines. While some European oil and natural gas import sources are diversified, they are insignificant compared to what Russia can deliver now and into the foreseeable future. Europe will depend on Russia for oil and natural gas for as long as these fossil fuels are burned as the primary energy source.

Alternative fuels, while their market share is growing, also do not offer a realistic solution any time soon. While nuclear, hydro, wind, and other sources of energy offer the possibility to change the core of European energy sources, the cost remains prohibitive. The transition from oil and

natural gas to these other sources will take time and tremendous expense in order to allow economic stability. Infrastructure, corporations, and workers all require a systematic change in converting to these new energy sources and in order to do that, time is the key element. Europeans seem to know and understand this and instead of confronting Russia are employing cooperation as the key to building a long-term relationship with Russia as a dependable supplier.

### **C. RUSSIAN ENERGY ASSESSMENT**

Russia has emerged over the last several years as a world energy powerhouse.<sup>155</sup> The two main pillars of energy that contribute most to this power are oil and natural gas. As with most cases concerning the power that one country has, other countries will naturally perceive it as a threat. This is the case with Russian energy. Specifically, European countries that depend on Russian oil and natural gas imports fear over-reliance from Russian energy sources as a threat and risk to their security. However, when viewed from the Russian perspective, Russia may also feel that they are overly dependent on Europe as a consumer of their oil and natural gas. Russia relies heavily on energy exports for state revenues and the European market is a vital part of those revenues.

Energy is the source of new found power for Russia and has helped to turn around their fortune in recent years, especially since world oil prices have grown to well over \$90 per barrel and tripling the \$30 average in the 1990s.

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<sup>155</sup> The Brookings Foreign Policy Studies. "Energy Security Series: The Russian Federation." The Brookings Institution (October 2006): 1.

Since the lowest times of Russian bankruptcy in 1998, the revenues from oil and natural gas exports have seemingly been the most important tool for Russia to enable them to turn around their debt burden. Since 1999, Russia's Gross National Product (GNP) growth has averaged between 6 and 7%, and estimates point to maintaining these numbers over the next several years.<sup>156</sup> Indeed, Russian energy resources coupled with high prices and greedy European demand has lifted their economic outlook for the future. Historically, Russia has always wanted to be known as a secure energy provider, and over the past several years Europe's market has steadily relied more and more on Russian oil and gas. But recent events have tarnished Russia's reputation as a reliable energy source and caused European countries to more aggressively explore alternative methods and strategies to fuel their countries and economies.<sup>157</sup> If Russia is too dependent on Europe's consumption and the revenues that are created, then the new found prosperity and political strength could end and result in serious threats to other national interests.

In order for Russia to continue to realize continued success in the energy sector, albeit, relative to their past economic and political turmoil since the collapse of the Soviet Union in 1991, a close view of its current strengths and weaknesses should be made here. Additionally,

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<sup>156</sup> Fiona Hill, "Moscow Discovers Soft Power," The Brookings Institution. *Current History* (October 2006): 341-347, <http://www.brook.edu/views/articles/fhill/20061001.pdf>, last accessed August 7, 2007.

<sup>157</sup> Commission of the European Communities. Annex to the Green Paper, "A European Strategy for Sustainable, Competitive and Secure Energy," 2006.

opportunities and threats should also be listed, as they pertain to Russian dependence on Europe and their relations to other parts of the world.

Russia has benefited from increased energy prices by strengthening its economy and its geopolitical position. Russia's GNP has continued to grow over the last several years and the living standards of Russia in general has increased along with that. Instead of a deficit, Russia now runs a modest surplus in the state budget, and demonstrates financially responsible habits such as repaying foreign debts ahead of schedule, accumulating the world's third-largest currency reserves, and has built a \$50 billion stabilization fund.<sup>158</sup> Moreover, they have definitely reappeared as a stronger political actor on the world stage as demonstrated in recent involvement with the G-8, United Nations, World Trade Organizations and other international forums. Much of this reemergence can be cautiously attributed to the energy industry and the strengths of that industry. But the energy system that has been built operates in a volatile world and contains weaknesses that should be improved. Resulting from these strengths and weaknesses are opportunities and threats which are discussed here.

### **1. Strengths**

Oil and Natural Gas Reserves are plentiful and should continue to keep Russian revenues high. Plans to expand and build new pipelines include increasing the capacity from Belarus to Poland in the Druzhba Oil pipeline that runs from

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<sup>158</sup> Lionel Beehner, "Russia's Energy Disputes."



southern Russia, near Kazakhstan to Germany. Along the way it collects oil from the Urals and Caspian Sea and feeds Ukraine, Slovakia, Czech Republic, and Hungary.<sup>159</sup> The Baltic Pipeline system carries crude oil from Russia's West Siberian and Tyumen-Pechora oil provinces to Primorsk. The plan here is to increase output from 1 million barrels per day (bbl/d), to 1.2 million bbl/d. Plans also include converting the Adria pipeline from import to export, leading to an increase of another 300,000 bbl/d. Other oil pipeline proposals seek to export oil from East Siberia to the ever growing Chinese market, and are coupled with both oil and natural gas in the Sakhalin II project. In Europe, the Blue Stream pipeline services Turkey. The Yamal-Europe I pipeline, that runs through Belarus, Poland, and Germany may be doubled – the Yamal II – then split either in Belarus or Poland to travel south to provide more gas to Slovakia, Hungary, the Czech Republic, Austria, and Italy.<sup>160</sup> And as discussed earlier, the Nord Stream will link Russia directly with Germany for increased supply of natural gas as well. Other strengths include that there is a pre-existing and extensive domestic infrastructure, they have in fact a strong export market position, a large domestic market, and are a gateway for a significant portion of Central Asian exports.

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<sup>159</sup> EIA. "Country Analysis Brief: Russia"

<sup>160</sup> The original source of pipeline information is found in U.S. Dept of Energy, Energy Information Administration. "Country Analysis Brief: Russia." <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>., last accessed August 2, 2007 and is cited extensively in: Bernard A. Gelb. "Russian Oil and Gas Challenges," Congressional Research Service. Report for Congress, January 3, 2006, 7-10.

## **2. Weaknesses**

Although previously Russia has tried to maintain a constant supply of oil and natural gas to consumer countries, the recent events in Ukraine and Belarus have tarnished their reputation as a reliable energy provider and could slow future demand from European countries. Lack of competition and monopolistic practices do not provide incentives to increase production efficiency, reinvest in technology, or increase production. The existing natural gas fields are in decline and infrastructure is deteriorating. Subsequently, absence of competition does not provide the adequate incentive to reinvest these areas. Government majority control of energy companies limits access to external financing. A majority of exports rely on multi-country transit routes, which keep cost higher due to transaction costs such as tariffs and taxes. Russia is working to eliminate some of these weaknesses, for example, by building the Nord Stream pipeline that does not transit through other countries, but monopolistic structure of the energy companies will ensure that some of these weaknesses continue and could lead to greater problems in the future. While pipelines reach many different markets, production capacity is fully utilized – a limitation to increase exports which also prevents surge exportation. Finally, Russia's inefficient domestic consumption takes away some of its export capacity and reduces the opportunity for increased state revenues.

### **3. Opportunities**

Several opportunities present themselves based on the strengths of Russia's energy environment. Increasing exports to Europe is an obvious one, but they should proceed with caution pertaining to long-term contracts and continue to ensure that diversification diffuses over-reliance. Russia should continue to expand at a more rapid rate in the export market to the east. Energy markets in China, Southeast Asia, and Africa will continue to grow and this presents a perfect opportunity for export diversification. One example that shows Russia is taking advantage of this opportunity is that Russia Petroleum, a consortium of TNK-BP, has plans to construct a pipeline connecting Kovykta natural gas field to China along the Yellow Sea to South Korea. The pipeline is slated to have a capacity of over 40 billion cubic meters per year and deliver nearly half of its natural gas to China and the rest to South Korea, with revenues running up to \$1.2 - 1.4 billion per year by 2020.<sup>161</sup> Russia should invest in energy efficiency within its own borders also. Implementing initiatives to increase domestic reliance on nuclear, wind, and hydropower for energy generation may free up oil and natural gas for export.

### **4. Threats**

Europe is taking steps to ensure that they also diversify their supply of energy resources, particularly oil and natural gas. A major threat to Russia is a loss of the

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<sup>161</sup> TNK-BP Company Official Website. "Kovykta Project," <http://www.tnk-bp.com/operations/exploration-production/projects/kovykta>, last accessed August 3, 2007.

European market share not only to reduced consumption by Europe thanks to alternative energy sources mentioned before and including nuclear, water, and hydro; but also thanks to Europe finding alternative countries as sources of oil and natural gas. While this threat is seemingly less pronounced since Russia has a geographical and infrastructure advantage, countries on the north of Africa could enter the market by offering resources at lower prices if they improve efficiency at a faster rate than Russia.

The current pipelines that run from northern Africa, across the Mediterranean, to Europe have not yet realized their full potential. Free market economy and competitive forces could propel these areas as a more economical and diverse choice for Europe. Other threats include disruption of exports, whether it occurs by accident, environmental constraints, or possible internal and external terrorist attacks. An additional threat includes Russia's inability to meet future domestic demands, especially if domestic energy efficiency does not improve or increase at a significant rate. But perhaps the most ominous threat is financial insolvency —especially if oil and natural gas prices decline. While many other aspects of the threats involved can be held at bay through some control measures or policies, the decline in prices involves factors through the entire international economic community and worldwide demand. Historically there are price fluctuation and peaks and valleys in energy prices due to changes in technology, supply, and demand. This threat could affect the Russian economic outlook in such a negative manner that it definitely requires an insulation plan to keep the impact as

low as possible – and diversification to European and other markets could be key to that plan.

#### **D. THE CURRENT CALCULUS**

Russia depends on its wealth of oil and natural gas reserves as export income tremendously. It accounts for a large portion of total state revenues and has been a positive source of domestic growth as measured through annual increase in Gross Domestic Product. The European market is a significant percentage of the total revenues received through energy exports and illustrates the dependence Russia has on this market. The continued high level of state revenues for Russia depends on two very important factors – demand stability in the European energy consumption market, and growth in other markets, such as China and other Asian countries. Due to Russia's overdependence on the European market, it can be concluded that they should implement changes affecting these two areas.

First, Russia needs to ensure that they remain viable as energy exporters in Europe. This includes being able to meet the consumption demands of Europe through increased domestic efficiency and decreased domestic consumption, thereby freeing energy export resources for Europe, and increasing capacity of transit routes to ensure that demand can be met. Additionally, Russia needs to reinvest in infrastructure and technology to maintain efficiency and keep cost competitive. Finally, Russia needs to rebuild their reputation as a reliable energy provider. All of these factors are critical in order to keep Europe as a favored customer. If Russia implements these policies,

Europe will have little alternative than to seek the path dictated by market forces and continue to embrace Russian energy imports versus seeking alternative energy sources.

Second, Russia needs to diversify their export regions. While maintaining European demand is important, a larger percentage of exports and revenues resulting from those exports need to come from different areas. Exports to China, South Korea, and Japan are a step in this direction. A major obstacle that slows this process is the absence of capital. Due to state control over production, transit, and export companies such as Gazprom, international companies and investors are more hesitant to offer the necessary capital needed to create new markets. A lack of investment funds now will stunt future growth and allow for competitor countries to gain market shares in exporting to these emerging markets. Together, by first ensuring Europe turns to Russia as its prime energy provider coupled with diversifying their export markets, Russian over dependence on Europe will slowly equalize to a more balanced, stable relationship.

The threat that Russia will use energy as a manipulation tool is real and should not be taken lightly. European officials are correct in ensuring that they create an energy strategy that keeps the influence and balance of power of this delicate consumer/supplier relationship in harmony. The actual risk, probability, or likelihood – versus the mere threat – that Russia will use denial of energy resources as a political tool is more complex, as are the variety of situations where its use would be beneficial for Russia. Based on the intricate details of the

interdependence of Europe to fuel their economies and Russia's need to supply these resources in exchange for revenues, fear and uncertainty will continue. If Russia denied energy resources, they would only temporarily lose a portion of state revenue and perception as a reliable energy supplier. If they denied energy in large scale issue, then they would lose state revenue and illicit a harsh and more costly reaction from the West, such as trade sanctions. Therefore, Russia is more likely to deny energy resources in small scale issues that are less costly in the long run. Europe has much more to lose if energy supplies were interrupted as the effects would send shockwaves throughout the economy of any country on the receiving end. The higher costs to Europe compared to Russia will increase if Russia continues to diversify their customer base in Asia as well as other countries. Some similarities, although limited, can be made by comparing the use of energy as a political weapon to that of nuclear weapons. The fear of the other side actually using such a weapon can have a destabilizing effect just as the anticipated results, which would be catastrophic. Fortunately, the decision to use the energy tool can be reversed relatively quickly and without the same permanent fall out. Based on this, it should be expected that Russia will benefit more by merely offering the threat as perceived by Europeans, rather than actually employing it on a scale that would cost huge amounts of political capital.

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