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Foreign Policy Preferences of Russia's Energy Sector: A Shift to Asia?

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Introduction

Asia as a strategic priority of Russia's foreign policy emerged long before the current deep crisis between Moscow and the West over Ukraine. The roots of the Kremlin's shift eastward go as far back as 1997 when the US made, as a leading Soviet specialist George Kennan put it, a 'fateful error' by making a decision to enlarge NATO (Kennan, 1997).[1] At that time Russia's move to the East was a rather symbolic gesture that resulted in both building a vague Shanghai Cooperation Organization (SCO) to counterbalance an expanded NATO, and introducing the idea of multipolarity, with Russia among several other 'poles' to become an alternative to the US-led post-Cold War order.

The fascinating economic growth of China in the 1990s coincided with Vladimir Putin's search for a new model of economic development for Russia after the devastating economic crisis that hit the country in August 1998. For the Kremlin the crisis demonstrated the failure of the IMF-tailored reforms for post-Soviet Russia.[2] In this context, China was taken as a role model for a state-driven capitalism as the most effective mechanism for promoting economic growth and social well-being based upon a rather small group of the so-called national champions, first and foremost in the energy sector. As Vladimir Putin put it in his 2004 address to the Federation Assembly, there was no other way to grow rather than to rely upon state-controlled companies because 'We must grow faster than the rest of the world if we want to take the lead within today's complex rules of global competition ... This is the question of our economic survival. It is a question of ensuring that Russia takes its deserved place in these changing economic conditions' (Putin, 2004).

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The World economic crisis of 2008–2009 made Russian leaders believe that the economic model advanced by the US and the West as a whole was eventually wrong and its proponents lost moral authority to lead the world in the 21st century. The Russian Foreign policy Concept (2013) reads that 'The ability of the West to dominate world economy and politics continues to diminish. The global power and development potential is now more dispersed and is shifting to the East, primarily to the Asia-Pacific region' (Foreign Policy Concept, 2013). By then focus on the Asia-Pacific region as one of the main drivers of global economic growth, had already been standard wisdom (Clinton, 2011).

In this chapter I argue that, besides strong political incentives to go east, there were powerful economic impulses coming from Russian national energy companies (NECs) such as Rosneft, Gazprom[3] and Rosatom. Two companies out of this trio faced serious challenges in their traditional markets in Europe. Indeed, the European Union became a tough partner for Gazprom and to some extent to Rosatom by introducing discriminatory regulations in energy trade for third countries or demanding a high level of transparency, in order to guarantee nuclear safety. Also, due to the depletion of major oil and gas fields, such as Samotlor,[4] Russian majors had to think

of either going to the Far North, or East Siberia, or to the Far East (Sakhalin) or to the Arctic shelf.[5] In the early 2000s, the director of the Russian Natural Resources Ministry's department of natural resource exploitation regulations, Sergei Fedorov, shared the view that the situation with the depletion of Russia's oil reserves was quite worrisome. 'There are very few vacant oilfields left in the state's oil fund, 92% of Russia's oilfields have already been auctioned off' (Cohen, 2006).

Nevertheless by the end of 2014, the Russian Natural Resources Ministry reported substantial findings of oil and gas deposits (Putin, 2014e). The biggest ones were found in West Siberia (the Urinskoje field with 34 million tons of extractable oil) and in the Arctic.[6] This gradual shift in resource base to the North and Far East reflects changes in the regional priorities of Russia's energy sector, which is moving to new centres of production. Furthermore, this development was supported by the growing demand in energy (first of all, in hydrocarbons) in rising economies in Asia such as China and India in particular.[7] The current crisis over Ukraine and massive sanctions against Russian financial, defence and energy companies advanced by the US[8] also made Russia's leaders revise their energy strategy and deepen the relationship, first with China and later with India. Both states were interested to diversify their energy imports and minimize transportation risks.

Much academic work, as well as political and media coverage in the West, views the Russian energy sector (primarily, the gas sector) from the perspective of European energy security, understood as security of supply. Concern is expressed about Europe's level of dependence on Russian gas, and the lack of readily available alternatives. Little academic research, however, aims at discussing the overall role of the energy sector in Russia's foreign policy (Morse, 2009). By and large, researchers study either the oil or gas sector, and a few experts try to overview the whole oil and gas industry, but nobody looks at NECs as a whole.[9] As a result, a very important relationship between the Russian government and the NECs is missed, for the government has the authority to instruct and control the NECs in terms of their crucial decisions such as price policy, ownership, asset swaps, building joint ventures with foreign partners, etc. (Putin, 2012). As the Georgetown University professor Harley Balzer (2005) observed about a decade ago, even before becoming Yeltsin's heir, Vladimir Putin had argued in favor of state's controlling all the commanding heights in Russia's energy sector.

Observing the world energy sector in general, some experts came to quite radical conclusions that the era of global energy giants is over.[10] As *The Economist* noted, 'Across the world, big, listed state-owned enterprises ... that were floated, or raised mountains of equity, between 2000 and 2010 have had a dismal time. Their share of global market capitalization has shrunk from a peak of 22% in 2007 to 13% today ... In Russia, Gazprom, which the Kremlin once predicted would be the first firm to be worth $1 trillion, has crumpled: it is worth $73 billion today' (*The Economist*, 2014). The others pay attention to principles that might be common to all big energy companies – transparency and fair competition (Gilles, 2010).

This chapter makes two important contributions to the existing literature on the subject. First, it explains the quite complicated phenomenon of shifting Russia's foreign policy toward Asia, which is usually reduced to the ongoing conflict between

Russia and the US-led world over Ukraine, by looking at a series of long-term economic factors such as the export of energy sources, crucial for the Russian economy, and second, it provides a framework to grasp Russia's energy security policy that explains and develops a better understanding of its energy security behavior. The chapter argues that 'hedging' is the essence of the Russian energy security policy (Claes, 2001). Russia's leaders (Putin, first and foremost) have the authority to control the NECs and the means to develop a balancing strategy. The unexpected (to many observers) shift of Russian leading energy companies to Asia is indicative of Moscow's attempt to protect against market access and price risks and potential volatility in Europe, which still remains Russia's biggest market. In fact, both strategic and market considerations shape Russia's energy security policy.

Naturally, without any pressing need to effect change and with the prospering of European relationships, attempts at rebalancing had been very long term and somewhat half-hearted, given the vast potential of Siberia and the Russian Far East and its position in terms of Asian partners. Indeed, balance, before 2008 and especially before 2014 had little urgency to it and as such had less meaning. Vague notions of slowly opening new markets to diversify the Russian economy and trading strategy lacked the steely hard focus required to make significant breakthroughs and to finalize deals with China, India and some other regional partners. The element lacking in the vital decision to go Asia was the realization of the immediate threat to economic security posed by the reliance on European partnerships and trade. It has taken Russia time to take the initiative to commit more and more to its eastern relation- ships and the shocks it faced have come to form a greater component in Russia's views on its future in Asia.

This chapter maintains that in Russia's shift to Asia, the interests of pragmatic (business-driven) actors embedded in NECs coincided with those of military and security elites (siloviki) who are both willing to minimize security risks in the remote and sparsely populated Far East. This new form of Russia's political economy can reshape the previously loose coalition of oligarchs and Statists creating a more stable alliance that supports Vladimir Putin's new Eurasianist pragmatism.[11]

The structure of the chapter reflects the aforementioned topics. It opens with a short introduction about the role of the energy sector in the Russian economy and its plans to develop East Siberia and the Far North. Then it provides an analysis of the turbulent energy relations with Europe, which is still the biggest market for Russian oil and gas. The final part deals with the interest of Russia's energy companies in Asia and the most recent developments in this field.

The energy business is too big to be ignored

Much has been written about Russia's energy strategy with many publications focusing on either strategic or market perspectives. In the 'realist' school of thought, big corporations are seen as adjuncts to, or instruments of, state policy and may be mentioned in passing. After the Khodorkovsky case (2004) the former approach has dominated,

Table 6.1 The significance of oil and gas exports to the Russian economy

Export Revenues	$ billion in 2013	% of GDP	% of Export Revenues
Crude oil export	174	8%	33%
Oil products export	109	5%	21%
Total Oil export	283	14%	54%
Natural Gas Pipeline export	67	3%	13%
LNG export	6	0 %	1%
Total Natural Gas export	73	3%	14%
Total Oil and Natural Gas export	356	17%	68%

Note: Table compiled by author, source of data, Bordoff and Houser (2014).

arguing that energy was, is and will be the best weapon in the hands of Russia's leaders (Goldman, 2009; Ross, 2012: Stuhlberg, 2007). The latter perspective stems from assumption that, though the role of the state is decisive, energy policy is made largely by powerful NECs pursuing their own corporate and commercial interests.[12] I share the view that big corporations should be put centre stage, and their corporate strategies in choosing host countries as partners are already having a great influence on the development of the global political economy, 'and will increasingly do so' (Strange, 2000, p. 66). Acknowledging the importance of big business in policy-making, President Putin noted that 'over the last years the state has not made any significant decision without consultations with business. And in the future the government will do the same' (Putin, 2014c). In fact, Russian NECs are the key pillars of the Russian economy. Table 6.1 illustrates this point from the perspective of oil and gas exports.

The gas industry is crucial to the Russian economy, accounting for more than half (52%) of all energy consumed in the country and contributing 13% of total export revenues. It is difficult to calculate the exact contribution of the industry to the Russian GDP, but in 2013 it was around 8%. Oil companies contribute another 9%, led by Rosneft,[13] which accounts for more than 40% of Russian oil production and is the biggest taxpayer in Russia. The company's business operations have been moving eastward, where a bulk of growth is taking place. While there do exist hypotheses regarding the unprofitability, and perhaps general unfeasibility of operating in and seeking to develop remote areas such as the Arctic regions, which are typically far from population, infrastructural and commodity centres, the experience of Alaska, Khanti-Mansi, Yamalo-Nenets, and Sakha disprove such conjectures (Duhaime & Caron, (2006). Despite substantial challenges, these regions have witnessed significant growth and, as evidenced by their respective experiences, the presence of marketable natural resources dramatically changes calculations regarding which regions can or cannot be profit- ably developed.

It is worth noting that the comprehensive development of the East- Siberian oil and gas megaproject goes back to 2002, when the Siberian Branch of the Russian Academy of Sciences published its 'Strategy of socio-economic development of Siberia up to 2025' (Kuleshov & Suslov, 2014, p. 400) which later became a base for Russia's energy strategy taking it up to 2030. This document was aimed at finding a balanced approach to interaction between the state, Russia's East Siberian and Far East

regions, and business (Kontorovich & Korzhubaev, 2007; Korzhubaev, et al., 2009). Contrary to the West Siberian oil and gas project that was built in the 1970–1980s around supergiant oil and gas fields in Urengoi, the East-Siberian project has been built around a series of pipelines. One of the new factors in the development of the Russian gas industry in the coming years, the importance of which one cannot overestimate, will bring into production gas fields with a multi-component structure. At the moment, the share of gas with a high level of valid components (butane-propane mix) is 24%. By 2030 it is expected that this share will increase to 62%. Thus, there will be a strong incentive for the deeper processing of gas and the production of new goods, including helium. Hence, another important novelty of this new project is a set of geopolitical risks in getting access to Asian markets for Russian oil and gas and its products, such as helium and propane-butane. It is planned to synchronize the development of new fields with a multi-component structure of gas and building the appropriate processing facilities in six regions – five of them in the East and the Far North (Yamal, Yakutia, Irkutsk, Krasnojarsk and Khabarovsk regions, and North Caucasus). New modern clusters of gas chemistry will contribute to the economic development of the aforementioned regions. In order to achieve these goals, Gazprom will have to increase its investment programmes by 20% (from about $20 billion/year in the late 2000s to $25 billion per year in the coming two decades). New gas infrastructure will also provide the solution for the problem of utilization of associated gas. Whereas the development of Western Siberia was driven almost exclusively by capital from the Soviet state, the East Siberia and Far East will have the advantage of autonomy in encouraging investments not only from NECs but also from private actors, both those domestic and abroad. Given the interest of Russian enterprises to expand their operations, whether construction, transport, financial and other enterprises, the East should see a marked increase in investments coming from domestic actors, especially as doing so is heavily promoted by the central government. Perhaps more important, however, is the interest and level of capital investments foreign states (China, first of all) and private actors are willing to make into East Siberia and the Far East, seeking not only to acquire resources but also to promote a vibrant consuming market for their own exported goods. Therefore, in light of the diversification of capital influx to the region, there is little doubt that the East can relatively rapidly develop a multi- sector economy. In effect, as witnessed through the previous examination of the Western Siberian experience, economic growth promotes improvements in human well-being and, while market forces alone are insufficient to resolve issues such as inequality and access to labour or commodity markets, policies funded by revenue from primary industries can and should be implemented to address such issues.

An optimistic scenario is based upon positive developments in relations, first of all with China, which is viewed by Russia as the main market for both oil and gas products and strategic investors (see Table 6.2). Until May 2014, the main obstacle was lack of agreement over the price of natural gas.

Russia's Eastern Gas Industry Development Program (EGDP) was approved by the government in 2007. For the last five years Gazprom has created regional centres of production in Kamchatka and Sakhalin. In 2013, a new Kirinskoje field in Sakhalin went on line. Also, gas pipelines linked those centres with Russia's key cities in the Far East –

Khabarovsk and Vladivostok. The next phase of EGDP is to build gas fields in Yakutia (Chayada field) and in Irkutsk region (Kovykta field) with total proven reserves of 3 to 3.5 tcm of natural gas.

According to Gazprom CEO Alexey Miller, Russia's overall reserves of onshore conventional gas in East Siberia and the Far East is about 53 tcm and another 15 tcm can be developed offshore. The idea is to establish a new export centre of LNG in the Asia-Pacific region. Besides investments into pure gas industry infrastructure, the EGDP envisages building an LNG fleet in the Russian yards located in the Far East. As a result of these developments, 11 regions in the Russian East will get natural gas. Those plans are fully in line with the General plan which set an ambitious objective to increase Russia's gasification both in the west and the east of the country up to the 'European level' (86–90%).

While Rosneft and Gazprom make the bulk of Russia's export profits, Rosatom is a company which combines an abundant resource base with competitive technology. As the Russian Federation national nuclear

Table 6.2 Oil and gas sector development scenarios in East Siberia and Yakutia, 2015–2025

	Optimistic scenario			Pessimistic scenario		
Indicator	2015	2020	2025	2015	2020	2025
Oil sector						
Oil production, ml t	50	70	80	23	35	50
In Irkutsk region	22	30	35	6	10	17
In Krasnojarsk region	18	25	25	10	15	20
Yakutia	10	15	20	7	10	13
Export of oil, ml t	40	50	50	15	10	30
Gas sector						
Production of gas in bcm	60	70	70	35	40	40
Export in bcm	35	35	35	30	25	25
Production of helium, ml cm	180	212	212	108	150	150
Storage of helium, ml cm	170	198	198	90	138	138
Export of helium, ml cm	9	12	12	9	10	10
Oil and gas reprocessing						
Oil refining, ml t	10	30	30	5	13	13
Gas reprocessing, bcm	25	35	35	5	15	15
Production of ethylene, ml t	1.1	2.0	3.4	1.25	2.5	2.5
Production of butane propane mix, ml t	1.0	1.6	2.3	1.25	2.5	2.5

Source: Kuleshov and Suslov (2014), p. 410. Table compiled by author.

corporation, it brings together over 350 nuclear companies and R&D institutions that operate in the civilian and defence sectors. With almost 70 years' expertise in the nuclear field, Rosatom is one of the global leaders in technology offering cutting-edge industry solutions. The company works on a global scale to provide comprehensive nuclear services that range from uranium enrichment to nuclear waste treatment. According to Rosatom, its mission is to maintain the national interests in defence, nuclear safety and nuclear power (Rosatom, nd). Rosatom is a world leader in the number of nuclear reactors under simultaneous construction (nine in Russia and 19 abroad). A ten-year portfolio of Rosatom's export orders has made US$100.3 billion while at the beginning of 2012 export orders have been at US$66.5 billion (*The Moscow Times*, 2013). This portfolio envisages construction of 27 nuclear power units. Thus, Russia continues to

diversify its income by exporting nuclear power stations to as large a market as possible ('Ten-year Russia nuclear export', 2014). The company is the second largest in terms of uranium reserves and the third largest in annual uranium extraction. Also, it is the fourth largest producer of electricity in the world and number one in Russia in terms of nuclear power generation (about 18% of total power generated in Russia and over 40% in European Russia). Finally, Rosatom holds about 40% of the global uranium enrichment market and 17% of the global nuclear fuel market and keeps the world's only nuclear icebreaker fleet, which is crucial for Russia's shipment potential in the Arctic.

But the whole is greater than the sum of its parts, because the state can use the advantages of each of the aforementioned national energy companies for the sake of national interests. In addition to paying off Soviet-era debts and building various reserve funds, the state has supported heavily Rosatom's export activities by building not only strategic long-term relations with importers of Russian high-tech, but also by supporting the most important pillar of Russian security – its nuclear component. Moreover, by putting petrodollars into the nuclear sector, the state also creates a number of jobs in the most sophisticated sector of the economy and makes an important step toward its diversification. As Rod Adams observed,

Nuclear power plants are long term, valuable assets that provide reliable, emission free electricity for many decades. The rub is that they also require a substantial amount of capital investment before there is any product to sell ... Russia's decision to invest in nuclear energy capabilities is a brilliant strategic move befitting a nation of chess players. It recycles an unexpectedly large revenue stream provided by selling oil and gas into assets that will provide long lasting power (Adams, 2014).

EU-Russia energy relations: can Europe escape Russia?

Oil and gas do matter when it comes to generating economic power. Mao Zedong once said that power comes out of the barrel of a gun. As Harvard University Professor J. Nye has noted in a recent book, 'many people today believe that power comes out of a barrel of oil'.[14] Though oil is the most important raw material in the world, in both economic and political terms, and it is likely to remain a key source for energy well into this century, oil (at least in some regional contexts) is not the exception in judgments about economic power. Russia is a major producer of both oil and gas, but until recently gas has been regarded as scarce and more dependent upon fixed pipelines for supply and for this reason the EU and the United States view natural gas as one of its weapons.

The emergence of Russia as one of the key players on the European energy market took place after the Arab oil embargo was introduced in October 1973 to protest Western support for Israel during the Yom Kippur War. Using oil supplies as a political weapon was a new development in the industry and one that did great damage to OPEC's commercial credibility as a reliable supplier (Chalabi, 1999, p. 130). In the late 1970s Soviet leaders entered into negotiations with firms from Western Europe and the United States to develop the supergiant Urengoi natural gas field in Siberia, the largest gas field in the world. Negotiations centred around the building of a huge pipeline which

would stretch from Siberia to the Soviet–Czech border. In return for participation in the project, West European countries were to receive large and secure supplies of Soviet natural gas for 25 years, amounting to about one-third of their natural gas needs. The US$30 billion project was viewed as the biggest East–West trade deal in history. West European governments, and the companies involved in negotiations, including some American firms, saw the project as an exciting opportunity. Disapprovingly, Washington closely observed the project's development. Energy had always been considered a 'strategic material' in US government circles, and both the import of vast quantities of natural gas from a rival and assistance in the development of energy resources seemed risky (Crawford, 1993).

Despite the declared end of the Cold War, the 2000s substantially differ from the last years of the Cold War era. It seems that the logic of complementarity in energy relations between energy-poor Europe and energy-abundant Russia does not work anymore. In the EU, perceptions of energy security and the role of hydrocarbons have changed. Focus on climate change and renewables embodied in the so-called *Energiewende* (change in energy policy) became a new mantra for Germany and many other states. Also, several new members (especially the Baltic states and Poland) have brought into the EU their bad memories of Soviet domination. Not surprisingly, Russia's energy policy is viewed by the EU as an effort to gain power by structuring market asymmetries in the area of natural gas.

Political tensions over the crisis in Ukraine followed by the unsettled dispute over the gas debt between Kiev and Moscow[15] made the European Commission undertake the so-called 'stress test', estimated for the first time what would happen if there was no Russian gas for the next six months. Results of this provocative test were published by the Commission in mid-October 2014. The report presents the outcomes of a modelling exercise conducted by 38 European countries, including EU member states and neighbouring countries. It analyses different scenarios, in particular a complete halt of Russian gas imports into the EU ('Gas stress test', 2014). It noted that Bulgaria and Finland would end up with gas supply shortfalls of 100%, while Estonia would miss 73%. Lithuania (59%), Hungary (35%), Romania (31%), Poland (28%),

Greece (18%), Slovakia (17%), Latvia (15%), and Croatia (12%) would also suffer. But the impact is less worrying than it looks at first glance due to possibilities of using storage vats (currently 90% full in most of Europe) as well as of interconnectors to move gas round the EU; buying more liquid gas on spot markets; increasing imports from Norway; and switching to other fuels (first of all, biomass; 'Gas stress test', 2014).

Over the last few years Gazprom has had to respond to a combination of serious external factors that challenge its position as a key supplier to Europe. The most important factors are the exploitation of unconventional energy resources in the United States, the burgeoning LNG market, Europe's efforts to liberalize its energy markets and to integrate its energy grid, Russia's accession to the WTO, and the emergence of smaller, independent Russian companies producing gas and looking to ship it by tanker; all of these developments have called into question the durability of Gazprom's reliance on long-term contracts, oil-indexed prices and the use of pipelines.

The overall impact of all aforementioned factors is fourfold. First, the new energy reality might influence Russia's power through perception. It can hurt Russia abroad by projecting weakness. In other words, the weaker the position Gazprom might have in Europe, the weaker would be the position of Russia as a whole. The clear criterion here is Gazprom's market-share in Europe and whether it is shrinking, stable or increasing. Second, the challenge posed by the shale revolution in the US falls in the domain of price risk. Russia needs oil prices to stay above US$95 a barrel to keep the projected level of budget expenditures. In the worst- case scenario of the shale revolution, the Russian economy might lose up to one-third of its oil and gas export revenues and, as a result, its GDP will lose up to 1% per year. Of course, it will not happen soon, even taking into account current prices of oil at about US$50 per barrel. US LNG will not free Europe from Russian gas. Russia will remain Europe's dominant gas supplier for the foreseeable future, due to both its ability to remain cost-competitive in the region and the fact that US LNG will displace other high-cost sources of natural gas supply. Europe's dependence on Russia remains substantial, with more than 30% of gas coming from Russia. According to a study published in September 2014 by the Columbia Center on Global Energy Policy, US LNG export modelling shows that after 2020 more volume goes to Asia (primarily Japan) than to Europe, but additional supplies will put downward pressure on prices globally (Bordoff & Houser, 2014).

Gazprom CEO Alexey Miller is certainly correct in arguing that in the mid-term perspective there will not be one global gas market but rather a set of growing regional markets, including a European one (Miller, 2014). A huge gap in prices between the US market prospering from the shale boom on the one hand, and the EU and Asia, on the other, will not disappear soon. At the moment the EU has practically enough LNG import capacity to almost completely replace Russian gas. But the EU receiving terminals are presently only 20% loaded because they have lost the price battle for LNG to Asia-Pacific after the Fukushima accident. Shipments from Qatar and Algeria went to the prime market and the EU-28 LNG imports dropped by 30 mt over the last two years. Statistics of trade in natural gas between Russia and the European Union show that Russia's share in the EU's natural gas import can grow, as happened in 2013 (see Figure 6.1 below) due to the fact that major LNG suppliers diverted their volumes away from Europe. As a result, EU-28 LNG imports dropped by 30 mt over the last two years (see, Wood McKenzie, Gazprom Export estimates).

Though due to crises in Ukraine export of Gazprom to Europe in 2014 has reduced by 9.4%, it appears that Russia's natural gas monopolist in its trade with the EU still is the most stable supplier (see Table 6.3 below). Thus, in the context of the EU–Russia gas trade, it would be fair to speak first and foremost about Gazprom as the key counterpart for the EU.

Third, the new legislation in the EU (primarily the so-called 'third energy package') will substantially limit the operations of Gazprom and its subsidiaries in Europe. If the Russian government fails in its negotiation with the EU to revise some basic provisions of this new regulation of the European gas market, Gazprom will have to revise its strategy on the European market. It is noteworthy that in September 2012 the European Commission opened investigations about Gazprom which 'may be abusing its dominant position'. The Commission said it would look at whether the firm restricts

the free flow of gas across member states, prevents diversification of supply, and prices gas unfairly. The Commission said that, if established, Gazprom's practices 'may constitute a restriction of competition and lead to higher prices and deterioration in security of supply'. The commission's investigation involves Gazprom's activities in Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia ('Antitrust', 2012). One of the outcomes of this ongoing investigation might be the revision of prices in existing contracts in favour of consumers. On the other hand, this new legislation reduces the economic incentives for Gazprom to invest in Europe.

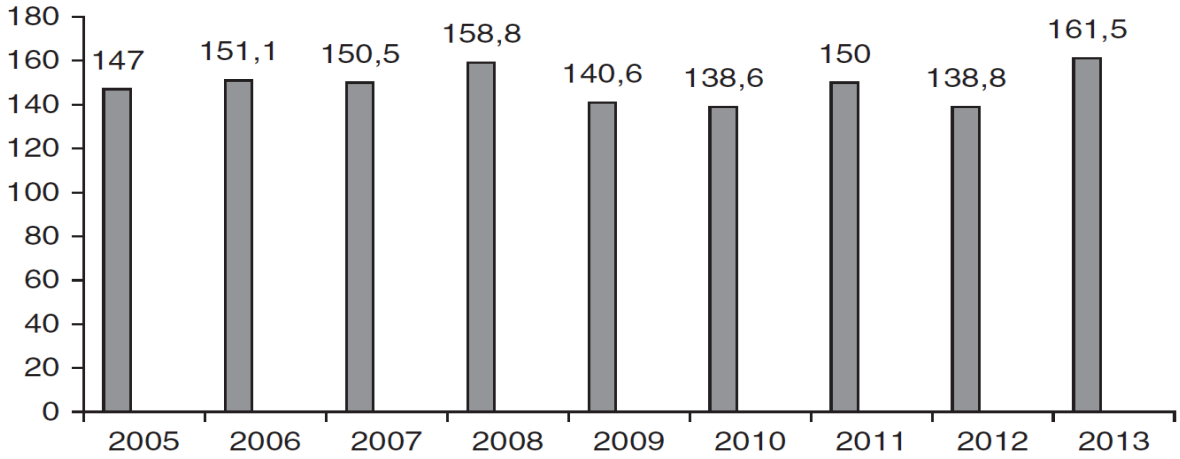

Figure 6.1 Russia's export of natural gas to Europe, 2005–2013, in billion cubic metres (bcm)

Source: http://www.gazpromexport.ru/statistics/.

Table 6.3 Supply by the largest gas exporters in billion cubic metres (bcm)

Supplier	2012	2013	Changes	Changes, %
Russia	139.9	161.5	21.6	15.4
Norway (incl. LNG)	121.4	115.4	–6.0	–4.9
Netherlands	72.6	81.5	8.9	12.2
Algeria (incl. LNG)	46.5	37.9	–8.6	–18.5
UK	43.8	40.9	–2.9	–6.5
Libya (incl. LNG)	6.7	6.2	–0.4	–6.5
Qatar	31.3	24.8	–6.5	–20.7
Nigeria	12.1	7.5	–4.6	–38.0

Source: IEA, Eurostat, Wood Mackenzie, Lloyd's. Table compiled by author.

Fourth, some WTO members (primarily EU states) reserved the right to question Russia's high export tariffs on the export of oil and gas, as well as a system of dual pricing on the world and domestic market. This factor also increases the bargaining position of the European importers, who are seeking to reduce their total natural gas expenditures.

The crisis over Ukraine has fueled tensions between Moscow and the West. At a summit in Brussels in late March 2014, European Union leaders called for measures that would cut Europe's reliance on imported natural gas from Russia ('Europe looks to cut Russian gas import', 2014). Furthermore, the crisis has escalated a State Department initiative to use a new boom in American natural gas supplies as a lever against Russia. The administration's strategy is to move aggressively to deploy the advantages of

its new resources to undercut Russian natural gas sales to Ukraine and Europe (Davenport and Erlanger, 2014). Later, Washington and Brussels introduced a series of economic sanctions aimed primarily at the oil sector, although the gas sector suffers, too. Novatek, Russia's No. 2 gas producer, was put on the Western sanctions list, limiting its ability to raise funds in Western markets. Novatek leads the US$27 billion Yamal LNG project in Russian Arctic, which is expected to more than double Russia's share on the global liquefied natural gas market. France's Total and China's CNPC co-own the project, which basically demonstrates Russia's willingness to offer Europe not only pipe gas but also LNG. Gazprom suffers, too. The company still fights for access to the German pipeline system OPAL, and the US$40 billion 'South Stream' project with its annual capacity of 63 bcm was diverted from EU to Turkey[16] and last but not least, major Russian energy companies have no access to refinancing in the West of loans to be paid in 2014 and 2015. Russian companies, including oil giant Rosneft, may face challenges refinancing the US$112 billion in debt due to mature over the next four years (Moody's, 2014). The Russian government made it clear that companies under sanctions will get needed support from the National Wealth Fund.

As for Gazprom, the company must repay about US$944 million in euro-denominated debt this year and has about $3.4 billion in euro and dollar debt due in 2015 ('Gazprom Eurobond at Risk', 2014). Currently being exempt form sanctions, Gazprom refinances its debt through US dollar-denominated loan participation notes (LPNs) in the amount of US$0.7 billion with an annual interest rate of 4.3%.

According to Gazprom, although Europe is still viewed as its top priority, all aforementioned negative dynamics and the EU perception of energy security, which puts politics above business, makes it very difficult to pursue its traditional strategy. Alexey Miller has even claimed that the European Union market currently does not function as a market at all. It avoids real inter fuel competition and puts political goals over the interests of consumers (Miller, 2014). In other words, multibillion currency investments earlier planned by Gazprom and its European business partners that could de facto diversify infrastructure in the EU and guarantee needed supplies across the whole of Europe are now under question. In the long run, Russia's export potential for Europe can drop, since the bulk of finance will go to develop the natural gas trade with China. What is sure is that, having met politically motivated resistance in the EU, Gazprom is trying to diversify its exports and increase its market share in Asia.

(Un)expected shift to Asia

The concept of 'energy diplomacy' within the discourse of Russian academics and politicians first became fashionable during the early 2000s, 'when it became evident that high global oil prices were likely to stay for some time' (Milov, 2006). This outwardly utilitarian approach to employing energy resources as a tool, when considered in conjunction with Vladimir Putin's December 2005 declaration that Russia 'wanted to become "an energy superpower"' has led analysts to conceptualize Russia's energy strategy as largely one that is motivated by a hard-power, realist perception of global affairs (Milov, 2006, p. 3). The notion that the Russian government is motivated by its own anxiety over the possibility of losing influence in the Asia-Pacific

sphere, as well as by perceived threats to its sovereignty amidst the rise of China alongside an economically and demographically feeble Russian Far East is held as self-evident. However, although such concerns regarding the influence of China have been voiced by politicians and academics alike, the current administration of Russia 'has been careful in not projecting Russia's strategic pivot to Asia in military terms' (Kapila, 2013).

In October 2003 President Putin tried to challenge Kipling's well- known maxim: 'East is East and West is West' by arguing that in the 21st century West and East meet in Russia as a bridge between the two biggest markets and as one of the key actors in world politics. It also reflected in Russia's foreign policy concepts of 2000–2013, which view the new multipolarity as an established fact and aims at developing equally good relations with Europe and the Asia-Pacific region (Putin, 2003). As Table 6.4 illustrates, since 2000 the Russian leadership has been paying more and more attention to the eastern dimension in foreign policy, although there is scepticism among Western scholars about repeated official statements that Russia views European and Asian foreign policy as equally important.

Indeed, geographically, historically and economically Russia is closely tied with the EU. The European Union is the major trade partner of Russia, the biggest market for Russian natural gas, and Rosatom builds or is going to build several nuclear power plants in the EU (the most recent ones are in Hungary and Finland) with a trade volume accounting for over 60% of total trade. Also, the main resources, the human resources and technological infrastructure, are all concentrated in the European part of Russia. Most importantly, by its mentality and culture, the people of Russia are Europeans. But the crisis over Ukraine and the following sanctions greatly influenced public attitudes toward Europe,

Table 6.5 Perception of the EU and China in Russia, September 26–29, 2014

Perception by the Russian people	**European Union**	**China**
Friendly	1	19
Good neighbourly	2	25
Normal, quiet	3	35
Chilly	25	9
Tough	50	7
Adversary	16	1
Uncertain	4	4

Source: Russia's national polling agency – Levada Center, 2014. Table compiled by author.

while China, in contrast, is viewed by the vast majority of Russians very positively (see Table 6.5).

Russia and the Russian Far East consider the Asia-Pacific region to be vital for ensuring the country's sustained economic development, comprehensive security and influential foreign policy. There are at least four areas of Russia's regional involvement in the Asia-Pacific that potentially could significantly advance Russia's presence in the region: energy supplies, transportation services, arms trade,[17] and partnership between regional and sub-regional groupings. The most recent Foreign Policy Concept (2013) confirms the growing role of the East ('Putin's 2013 Foreign Policy Doctrine'nd).

Russia is taking advantage of north-east Asia's growing dependence on oil and gas. Moscow expects to raise crude exports to the Asia-Pacific region tenfold by 2020, as Russia taps oil and gas fields in Eastern Siberia and the Far East and delivers up to 70 bcm of natural gas. Also, Rosatom is going to become the dominant actor in doubling nuclear power generation in China within the next two decades and will do the same in India. If those plans materialize, Russia's trade with China will reach

$200 billion, and the bulk of it will be related to energy products and services. But, Russia is not content with being purely a supplier to the Asia-Pacific, and it hopes to shape energy security and cooperation in the region through what President Vladimir Putin called 'a new energy configuration in the Asia-Pacific region' (Azizian & Reznik, 2012).

As we have mentioned, Asian Russia contains very large deposits of oil and gas.[18] In the early 2000s, those deposits were not classified as reserves, because they could not be economically produced under current economic and operating conditions. They were not developed, and systems to transport the oil and gas to markets were not in place. These transport systems would require billions of dollars of investment

Table 6.4 Russia's identity in foreign policy concepts, 1993–2013

	1993	2000	2008	2013
Self-perception of Russia	Normal (European) power	Great power with own interests; One of the largest Eurasian powers	One of the influential centres in the modern world; The largest Eurasian power	One of the most influential and competitive poles of the modern world
Foreign policy direction	West	Multi-vector and Own path	Balanced and multi-vector	Eurasia
Importance of Asia and Asia-Pacific for Russia		1) Due to Russia's direct affinity with this dynamically developing region and 2) The need for an economic upturn in Siberia and the Far East	1) Due to Russia's belonging to this dynamically developing region of the world, 2) Economic development of Siberia and the Far East	1) The global power is shifting to the Asia-Pacific region; 2) The region is the fastest-developing geopolitical zone; 3) To boost the Siberian and Far Eastern economy
Relations with Asia	Not significant (symbolic)	Important	Important and ever-increasing significance	Strategic
Role of economic factor in FP		Russia must be prepared to utilize all its available economic levers and resources for upholding its national interests.	Economic interdependence of states is becoming one of the key factors of international stability; The use of all available financial and economic tools of the state and provision of adequate resources for the Russian Federation's foreign policy.	(1) To determine the global agenda in the areas of energy and food security; (2) To diversify Russia's presence in global markets; (3) to secure the status of the Russian Federation as a key transit country in the context of trade and economic relations between Europe and the Asia-Pacific region

Continued

Table 6.4 Continued

	1993	2000	2008	2013
Energy as economic power	Not mentioned	Advance Russian economic interests, including in the matter of the choice of routes for important energy flows	(1) A responsible partner in the energy markets, (2) Contributing to the maintenance of balanced world energy markets; (3) Strengthening strategic partnerships with the leading producers of energy resources, (4) Developing active dialogue with consuming countries and transit countries on the basis of the principles of energy security enshrined in the final documents of the Saint Petersburg G8 Summit in 2006	(1) Shale revolution; (2) Increased competition and unfair competition; (3) The need for diversification of markets

Source: Texts of Russia's foreign policy concepts are available at Russia's President website – http://kremlin.ru.

and several years to construct. Greenfield development would require even bigger investments and involve a huge logistical and infrastructure system.

In September 2001, two Russian companies – state controlled Transneft and private Yukos – signed an agreement with the China National Petroleum Corporation (CNPC) to build an oil pipeline from East Siberia to China because Russia was unable to satisfy the Chinese appetite in oil by transporting it by rail. An oil pipeline would go from the city of Angarsk, near Lake Baikal, to China to transport 400,000 barrels per day of Yukos' and its partners' crude oil to China. This project would commit a significant portion of the region's production to a single market and constituted an agreement between one of the oligarchs and a foreign government. With this action, Khodorkovsky had moved from involvement in domestic politics to international relations and foreign policy, as well.

The Chinese government had included this project in its five-year plan and had lobbied hard for it in Moscow. Russian PM Mikhail Kasianov and his deputy for energy Viktor Khristenko supported the project, and the latter even paid a visit to China in order to discuss the details (Gustafson, 2012, p. 291). Charles A. Kohlhaus (2003) argued that this project would undermine the economics of the Transneft pipeline project to the Pacific and delay or prevent its construction, thereby discouraging development of the regional oil fields by anyone but Yukos. This project obviously was designed to pre-empt the Transneft project and establish a Yukos monopoly over the oil and gas resources of Asian Russia. By extension, Yukos could control the economic development of the entire region and establish a dominant political position.[19] The Yukos project increased the risk to Transneft and, moreover, in the autumn of 2003 rumours began to surface of discussions between Yukos and ExxonMobil or ChevronTexaco regarding sale of a significant portion of Yukos to one of the American companies. In that situation Putin intervened. On 10 October 2003 he dismissed the Yukos project by announcing in the *Wall Street Journal* 'the development of a new energy structure in the Asia- Pacific region, ... through the creation of a system of oil and natural gas pipelines and tanker deliveries of liquefied natural gas from the eastern areas of Russia ... ' (Putin, 2003).

As Thane Gustafson argues, CEO of Yukos Mikhail Khodorkovsky was furious about insulting China by rejecting his project to build an oil pipeline to China, 'The Chinese told me once that you can beat a dragon with stick so long as it's asleep. But that dragon now has a GDP three or four times larger than ours, its growth rates are two to three times greater, and its population is ten times of ours. For the moment the dragon is taking no notice – but I wouldn't want it to change its mind' (Gustafson, 2012, p. 291).

In February 2009 Russia signed off on another big deal to send energy to Asia, a US$25 billion oil-for-loans contract with China. Under the deal, Russia agreed to supply China with 30m tons of crude oil from East Siberia over 20 years in return for loans for Transneft, the state- controlled oil pipeline monopoly, and Rosneft. Thus, it took Russia and China several years of negotiations to find a win–win solution to build an oil pipeline from East Siberia to the Pacific Ocean (ESPO).[20] The US$25 billion ESPO link was then Russia's most expensive infrastructure project.

Today, Russia delivers an unprecedented 25% of its crude exports to Eastern markets, as rising demand from China and other Asian consumers attracts sales at the expense of Europe (Rudnitsky, 2013). It is quite predictable because Asia is a region where demand is increasing, as opposed to Europe. In 2014, Transneft, which has control over Russia's state pipeline monopoly, won government approval for its investment programme to double ESPO's capacity by 2020 reaching 80 m tons a year (Gorst, 2014). It is worth noting that as Russian oil production is barely rising, extra crude oil flowing to Asia has forced a slowdown in exports to other destinations. Europe's struggling refineries have been paying higher prices to obtain increasingly scarce supplies of the Russian Urals export blend. Adding to the problems, Russian producers have been investing in refinery modernizations and are now processing a larger proportion of their crude for export as value-added products (Gorst, 2014).

Negotiations over Russia's gas exports to China were a much more difficult problem. They began in 2003. The main hurdle here was the price. The Chinese did not want to pay as much as the Europeans pay to Gazprom. In 2009, China signed an agreement with Turkmenistan on building a pipeline to deliver gas to Chinese Western provinces. Uncertainty with building gas pipelines from Russia to China had a great impact on the strategy of the Russian oil companies, which were very much concerned with effective utilization of associated gas and condensate from their oil fields. In short, lack of agreement between Gazprom and its Chinese counterparts regarding the price issue was also one of the main obstacles for the activities of oil companies in that region.

The strong bargaining position of China was based on several factors. The most important of them were substantial volumes of gas coming to the country from other exporters including Turkmenistan with its 80 bcm of cheap gas, as well as abundant deposits of coal which still constitute the lion's share in China's energy mix.[21] The breakthrough became possible mostly due to new leadership in China, which substantially changed both the foreign and security policy of China. Among other things, it is willing to minimize risks related to the transportation of oil from the Gulf states. The new Chinese leader thinks much more broadly than his predecessors. As Elizabeth Economy argues, 'For Xi, all roads lead to Beijing, figuratively and literally. He has revived the ancient concept of the Silk Road – which connected the Chinese empire to Central Asia, the Middle East, and even Europe – by proposing a vast network of railroads, pipelines, highways, and canals to follow the contours of the old route. The infrastructure, which Xi expects Chinese banks and companies to finance and build, would allow for more trade between China and much of the rest of the world' (Economy, 2013, p. 88; Economy & Levi, 2014).

Buying more oil and gas from neighbours such as Russia, Kazakhstan and Turkmenistan makes China less dependent on those who control shipment lanes, namely the United States. Pure economic calculations regarding the price for Russian gas were put into the broader security assessment which also provided China with access to the most sophisticated Russian technology, such as the world's first floating nuclear power plant being built for China and Russia's best weaponry (a 4.5-generation fighter Su-35S, the S-400 surface-to-air missile, anti-ship missiles, etc.). The most

impressive projects to build gas pipelines from Russia to China well exceed, in terms of financing, those projects that Western Europe was supporting in 1980s.

On 21 May 2014, Gazprom and the China National Petroleum Corp (CNPC) agreed to a deal for the supply of gas to China, following years of negotiations. The deal represents a major breakthrough, and will have a serious impact on both regional and global patterns of gas trade and energy security (Paik, 2014). The contract with China is worth US$400 billion, and is supported by preferential tax regimes on both sides. Russia will invest US$55 billion for exploration, production and pipe- line construction of the 'Power of Siberia' pipeline, and US$20 billion of investment is expected from China. More broadly, however, the deal is the first step toward very large-scale pipe gas exports from Russia to Asia. According to Gazprom, it is just the beginning and the prospects of pipeline gas supply to the Chinese market are simply tremendous. In October 2014, Russia and China signed off on another deal to build the 'Altai' pipeline with a capacity of 30bcm. Thus, in the near future the volume of Russia's gas supply may grow to 60 bcm and even to 100 bcm a year, constituting almost two-thirds of Russia's current export to Europe.

Also, for the last few years Gazprom has intensified its ties with other potential partners – Vietnam and India. Since 2009 Gazprom has been cooperating with Petrovietnam on the development and transportation of oil and gas both in Russia and Vietnam and in third countries ('Gazprom i Petrovietnam', 2014). In addition, Russia has sought to enhance its LNG export to India. In 2013, Gazprom Marketing and Trading has already delivered to India two shipments of LNG of 0.11 million tons. In 2012 Gazprom agreed to supply India with 2.5 m tons of LNG over 20 years. The first shipments are due in 2017 (Putin, 2014a).

In 2014, Rosatom signed several contracts with key partners in India, China and Turkey. Following talks in Delhi with Indian Prime Minister Narendra Modi, in December 2014, President Putin announced that Russia is willing to help India build over 20 new nuclear power units, as well as cooperate in building Russian-designed nuclear power stations in third countries, in the joint extraction of natural uranium, production of nuclear fuel and waste elimination (Putin, 2014b). The 'road map' on cooperation in this field envisaged building up to eight nuclear power units in the Kudankulam nuclear power station in Kudankulam in the Tirunelveli district of the southern Indian state of Tamil Nadu, a project agreed in 1988 (Energoblok No 1 AES, 2014). As for China, a Russian company will build stage two of Tianwan NPP (power units 3 and 4).

Another breakthrough in the Rosatom export strategy is the construction of Akkuyu NPP on the southern coast of Turkey. According to the agreement, Rosatom will build four power units, and the first power unit is scheduled for commissioning in 2019. Other projects include the construction of two power units in Vietnam and one in Bangladesh. In total, the Asian market will constitute the lion's share in the Rosatom export strategy, creating lasting interdependencies with importing countries.

Conclusion

The chapter began by posing the key question about the role of NECs in Russia's shift to Asia. Though political factors played an important role in this change, uncertainty in demand for Russian gas and even oil, as well as the depletion of traditional basins in Western Siberia made Russian NECs revise their strategy and go East and North. Growing demand for energy in Asia, as well as the availability of external resources to finance extremely expensive infrastructure projects in Eastern Siberia, the Arctic and the Far East, and finally a substantial oil and gas resource base – all these factors paved the way for major Russian companies to hedge their risks in Europe. It does not at all mean that Russia is leaving Europe. Neither side can cut the knot of interdependence in energy trade in the foreseeable future. As we have seen, Europe's dependence on Gazprom did not decrease in recent years. Russian NECs are not in a rush either, because of the lack of sufficient infrastructure till 2020. But with the Asian option, Russia gained not only access to a growing market, but also obtained some bargaining power in future relationships with Europe.

The Russian state was doing its best to finance the most sophisticated of its NEC trio – Rosatom, by the windfall of petrodollars generated by the two other energy giants – Rosneft' and Gazprom. This permitted them to win new markets in Asia and to keep the market share in the old ones in Central Europe and post-Soviet space. The most promising partners for all Russian energy majors are China and India, which both seem ready for lasting and mutually advantageous cooperation in the energy business. Both states substantially enhance their energy security by the diversification of supplies. As for Russia, by this shift to Asia, the natural gas and oil export business returned to the centre of the geopolitics of energy, and Russia might well become a swing energy supplier between Europe and Asia. As Chatham House fellow Dr Keun-Wook Paik noted, 'Being a swing supplier would be a dream come true for Russia, but a nightmare for Europe' (Paik, 2014).

Notes

1. On NATO enlargement debates and counterarguments by the Clinton Administration see Talbott (2002, pp. 217–250).
2. Nobel laureate in Economics Joseph Stiglitz (2002) was one of the first scholars in the West who critically assessed the role of Washington in Russia's reforms and devoted a whole chapter to the prophetic question 'Who lost Russia?'
3. Gazprom is Russia's largest state-owned energy company, engaged in natural gas production, transportation and distribution, as well as crude production and refining, and heat and electricity generation. In 2013, Gazprom produced 488 billion cubic metres (bcm) of natural gas and generated RUB2trn ($63 billion). Gazprom accounts for 15% of the world's natural gas production and meets nearly one-third of Europe's gas demand. It benefits from low lifting costs, a high reserve life and replacement rate.
4. The 1960s witnessed the discovery of the Samotlor field, one of the world's largest, hence the attraction of major investments that targeted oil and gas production in this region in the ensuing decades. Although the economy of the Soviet Union was primarily autarkic in design, the production of oil and gas in Western Siberia was encouraged not only to meet the energy requirements of the USSR but also, through hydrocarbon exports to European markets, as the means by which the country could earn hard currency.
5. Thane Gustafson speaks of three possible colours of Russian oil in the nearest future – green, brown and blue meaning the need to develop either new oil fields in the East Siberia and Far East or invest heavily into brownfields in order to produce extra volumes of oil by using sophisticated technology or go off-shore mainly in the Arctic – see, Gustafson (2012), pp. 449–479.
6. The Pobeda or Victory field in Kara Sea was discovered by Rosneft in September 2014. The field contains huge extractable potential for both light oil (130 million ton) and gas (about 500 bcm). – http://www.rosneft.ru/news/ pressrelease/03122014.html; Gazprom also increased its deposits by 716 bcm in the Astrakhan field and in the South-Kirinskoje field in the North.
7. For a detailed account of the Chinese factor in a new global energy para- digm see Economy and Levi (2014); TusjØ (2013), Yergin (2011), Stokes and Raphael (2010), Kalicki and Goldman (2005), Ameneh and Guang (2010), and Shaffer (2009).
8. The White House statement of 18 December 2014 reads: 'US entities would be forbidden from investing in gas giant Gazprom, and the company would face additional sanctions if it broke off supplies to key eastern European countries, with whom it has squabbled repeatedly over price' ('Obama signs Russia sanctions bill', 2014). The legislation also authorizes the president to impose sanctions on international companies that invest in certain types of unconventional Russian crude-oil energy projects and to further restrict the export of equipment for use in Russia's energy sector. And it authorizes the president to bar investment or credit to Gazprom.
9. A rare exception is a study by Tugce Varol (2013).
10. Among them is the former vice-president of BP (Butler, 2010).
11. On domestic political groups in the Russian Federation with various foreign policy orientations influenced the foreign policy decision-making process and on relationship between energy lobby and siloviki see, Andrei P. Tsygankov (2013). *Russia's Foreign Policy: Change and Continuity in National Identity*. Third Edition (Rowman & Littlefield Publishers, Inc), pp. 20, 136, 178-180.
12. See, for instance, such fundamental studies on Russia's oil sector as Gustafson (2012) and Luong and Weinthal (2010).

13. Rosneft is the leader of Russia's petroleum industry and the world's largest publicly traded petroleum company. Rosneft activities include hydrocarbon exploration and production, upstream offshore projects, hydrocarbon refining, and crude oil, gas and product marketing in Russia and abroad. The company is included in the list of strategic companies and organizations of Russia. The main Company shareholder (69.50%) is OJSC ROSNEFTEGAZ, a 100% state-owned company. BP owns another 19.75%, and the remaining 10.75% of shares are publicly traded. Available at: – http://www.rosneft.com/ about/Glance/, accessed 25 December 2014).
14. For a detailed account of oil and gas as sources of economic power, see Nye (2011).
15. The partial settlement was reached only on 31 October 2014.
16. The 'South Stream' was planned to transport Russia's natural gas supplies directly into the EU, bypassing Ukraine. The 'South Stream' pipeline would link Russia to Bulgaria via the Black sea, and then to Serbia, Hungary, Slovenia and Austria. The project was controversial from the very start due to its non- compliance with EU energy legislation (EU laws forbid the same company to simultaneously own infrastructure and supply gas into it) and was considered a competitor to the Turkey-to-Austria Nabucco gas pipeline, passing through the same nations. Also, Washington and Brussels had dismissed the 'South Stream' project as an attempt by the Kremlin to cement its position as the dominant supplier in Europe, while sidestepping Ukraine, where price disputes with Moscow twice interrupted supplies in recent years. On 1 December 2014, President Vladimir Putin said that 'Taking into account the European Commission's position, which is not conducive to implementing this project, ... and taking into account that we still have not received permission from Bulgaria ... we are ready to not only expand the Blue Stream pipe-line ... but also build another pipeline system in order to cover the growing needs of the Turkish economy. And if it is deemed expedient, we can build an additional gas hub for the South European consumers on Turkish territory, near the border with Greece' (Putin, 2014d).
17. In the future, the Asia-Pacific region will continue to be the largest buyer of Russian weapons. More than 70% of Russian arms are sold to China and India. Moscow is trying to diversify its Asian arms trade and has been successful in increasing its sales to ASEAN member states, particularly Malaysia, Vietnam and Indonesia. The possibility of EU arms supplies to China or US arms exports to India has alarmed Russia, but to a limited extent because of its solid and long presence in the Chinese and Indian markets.
18. The Chayanda field in the Republic of Sakha is estimated to contain 1.2 trillion cubic metres of gas and 79.1 million tons of oil. As a cornerstone of the Far East gas complex, production designs for Chayanda envision the field as a link for West–East gas pipelines, supplying domestic consumers as well as prospective chemical and refining facilities that will take advantage of the natural helium component of the gas that is itself a valuable element. 'Chayandinskoye' Gazprom, official website.
19. Similar plans developed another of Russia's oil giants, LUKoil, which was promoting a consortium of private oil companies to build and operate an export pipeline to Murmansk – see, Gustafson (2012, p. 279).
20. The first stage of ESPO of a 2,757 km section from Taishet in Irkutsk Oblast to Skovorodino in Amur Oblast (along with the branch to China) was completed and commissioned in December 2009. The first oil passed through the pipe- line in November 2010. The second phase of the pipeline is a 1,963km section from Skovorodino to the Pacific Ocean terminal at Kozmino. It has been in operation since 2012. At the same time Russia launched its US$22 billion liquefied natural gas project on the Pacific island of Sakhalin, opening a big new front to supply energy to Asia as the Kremlin seeks to diversify energy markets from Europe. The project would be able to supply 5% of global demand for LNG once at full capacity. About 65% of LNG produced at the plant is shipped to Japan. The launch of the project ends Europe's position as the only foreign consumer of Russian gas – all of Russia's existing gas export pipelines are directed into Europe or Turkey.
21. For details, see, for instance, Henderson (2011).

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