

Russia's energy diplomacy toward Europe and Northeast Asia: a comparative study

Hongchan Chun

Published online: 16 October 2008
© Springer-Verlag 2008

Abstract This paper aims first to illuminate the key aspects of Russia's energy diplomacy toward the EU and how the EU copes with it and then to apply the pattern found in Europe to Northeast Asia and compare the differences. In Europe, Russia has been quite effective in consolidating its dominant position as energy suppliers, and has been equally successful in nullifying the EU's collective attempts to produce a united front by forming individual energy relationships with various EU member states. A strategy of 'divide-and-rule' has been at the center of Moscow's energy diplomacy toward Europe. In Northeast Asia, by contrast, the progress of energy cooperation between Russia and Northeast Asian countries has been slower than both sides initially hoped. Overall, it could be attributed to Russia's failure to gain the trust of Northeast Asian countries in the course of its energy diplomacy under the Putin administration.

Introduction

From the rubble of the collapsed empire of the Soviet Union, Russia has rapidly re-emerged as a global power on the basis of its energy resources. As the world energy market becomes increasingly tight, Russia's importance grows accordingly. With the world's eighth largest proven oil reserves, Russia is the largest non-OPEC producer of oil. As for natural gas, Russia holds nearly twice the reserve (47.8 trillion m³) of the next largest country, Iran. At the end of 2005, Russia was the world largest natural gas producer (598.0 billion m³) as well as the world largest exporter (207.3 billion m³).

Increasingly aware of the importance of energy as a factor in foreign policy, Russia has begun to use its massive reserves of oil and gas as a lever to wield

This study was supported by the Fund for Humanities & Social Studies at Pusan National University 2007. The draft of this article was presented at the 2nd World International Studies Conference (WISC), 23–26 July 2008 (Ljubljana, Slovenia).

H. Chun (✉)

Department of Political Science, College of Social Sciences, Pusan National University,
Busan 609-735, South Korea
e-mail: hchun@pusan.ac.kr

influence internationally. Russia has already flexed its muscle at key Commonwealth of Independent States (CIS) countries, and is pursuing a comprehensive strategy to increase the European Union's dependence on Russian energy supplies, already around one-third of the EU's natural gas supplies. In the meantime, EU policy for coping with Russian pressure is in disarray; European countries have rushed to secure their own energy interests rather than coordinating for a common approach.

Russia's energy diplomacy toward the EU is likely to have heuristic implications for Northeast Asian countries. Both Russia and Northeast Asia have mutual interests in increasing energy cooperation, but there may be lessons to be found from EU-Russian relations for Northeast Asia in dealing with Russia as a potential energy partner. This paper aims to analyze the key aspects of Russia's energy diplomacy toward the EU and the way the EU has tried to cope. Subsequently, this analysis will be applied to the situation of Northeast Asia for the purpose of comparison.

Russia and the EU

The EU as Russia's trade and energy partner

The EU is by far the largest and most important trading partner for Russia. In terms of trade volume, the EU accounts for as much as 62.4% of Russia's external trade turnover. In 2006 the EU provided Russia with a trade surplus of 65.3 billion euros, which was more than a half of the total trade surplus for Russia (European Commission 2006; European Commission 2008a).

Russia's trade surplus from the EU comes mostly from its export of energy resources. Of Russia's exports to the EU, energy accounts for the dominant portion of 65.4% (89.5 billion euros) (European Commission 2007a). This makes the EU all the more important as a trade partner to Russia because the energy sector currently makes up about 25% of Russia's GDP and 60% of Russia's exports to non-CIS countries.

Under these circumstances, it is no exaggeration to say that Russia's oil and gas industry relies almost entirely on Europe; 74.4% of Russia's oil export and 63.2% of gas export were bound for the EU in 2005 (Table 1 and 2).

Europe's importance to Russia as the key energy export market is even more conspicuous in the area of natural gas. As of 2006, Gazprom charges an average of 5,238.5 rubles (approximately \$260.7 as of 2006) per 1,000 m³ for its exports of natural gas to Europe, while the price for domestic customers is only 1,320.0 rubles (approximately \$65.7 as of 2006). Europe is by far the most valuable market to Gazprom, compensating for huge losses from domestic sales. Given that only EU customers pay full market prices, the EU market makes up 57.4% of Gazprom's revenues (Table 3).

Russia as the EU's trade and energy partner

Being the EU's third-largest trading partner after the United States and China, Russia is a much weaker trading partner to the EU than the EU is to Russia. In 2006, Russia is the destination of only 6.0% of the EU's exports and the source of 10.1% of the EU's imports (European Commission 2008a).

Table 1 Russia energy export: oil (2005)

	Volume (mln. barrels)
World (total)	1,851.5 (100%)
EU(27)	1,378.0 (74.4%)
- Netherlands	298.3 (16.1%)
- Italy	212.9 (11.5%)
- Germany	200.7 (10.8%)
- Poland	128.1 (6.9%)
- Lithuania	64.4 (3.5%)
- Finland	58.7 (3.2%)
- Hungary	46.9 (2.5%)
Belarus	141.6 (7.6%)
Ukraine	108.4 (5.9%)
China	59.1 (3.2%)
Japan	10.9 (0.6%) ¹
S. Korea	8.3 (0.4%) ²

Source: European Commission (2007b)

¹ Japanese Ministry of Internal Affairs and Communications (2008)

² Korea National Oil Corporation(KNOC) (2008)

Overall, Russia is the EU's third-largest trading partner. When focusing on the energy sector, however, Russia takes on greater importance. Russia is by far the most important supplier of oil and natural gas to the EU. In 2005, Russia provided 29.9% (1,378.0 million barrels) of the EU's total imports of 4,878.2 million barrels of oil. This amounts to 28.2% of the total oil consumed in the region. In terms of natural gas imports, the EU relied on Russia for 45.1% of its annual import volume and 26.6% of its consumption (Table 4). Given the rising importance of energy resources, Russia has a strong basis for influencing the EU as its most important energy supplier, due to import dependency being as high as 82.2% for oil and 57.7% for gas (Table 4).

Table 2 Russia energy export: gas (2005)

	Volume (mln. M ³)
World (total)	207,263 (100%)
EU(27)	130,925 (63.2%)
- Germany	32,552 (15.7%)
- Italy	21,852 (10.5%)
- France	13,229 (6.4%)
- Hungary	8,990 (4.3%)
- Poland	7,032 (3.4%)
- Austria	6,829 (3.3%)
- Slovakia	4,588 (2.2%)
Ukraine	24,366 (11.8%)
Belarus	20,120 (9.7%)
Turkey	18,042 (8.7%)
China	0 (0%)
Japan	0 (0%)
S. Korea	0 (0%)

Source: European Commission (2007b),

Table 3 Gazprom's gas production and markets (2006)

Production	Amount (bln. m ³) 556.0 ¹	Average price charged (per 1,000 m ³)	Total income
Sales in Russia	316.3 ¹	1320.0 rubles ² (\$48.6 ⁴)	417.5 bln rubles ² (\$15.4 bln ⁴)
Export			
Europe (EU)	161.5 ¹	5238.5 rubles ¹ (\$192.7 ⁴)	845.9 bln rubles ³ (\$31.1 bln ⁴)
Baltic and CIS	101.0 ¹	2077.4 rubles ¹ (\$76.4 ⁴)	209.7 bln rubles ³ (\$7.7 bln ⁴)

Source:

¹ Gazprom (2006)

² Gazprom (2008a)

³ Gazprom (2008b)

⁴ The conversion into US\$ was made on the basis of the average annual exchange rate of 27.18 rubles for 1 dollar for 2006. (http://www.cbr.ru/statistics/credit_statistics/print.asp?file=ex_rate_ind_06.htm).

Russian-EU energy confrontation rather than cooperation

Given this high degree of trade complementarity and interdependence between the EU and Russia, the two sides would seem to be in need of close cooperation. Their strategic positions, however, are confrontational. Making the most of its dominant position as energy supplier, Russia is seeking to consolidate its dominance of the EU energy market. The EU, on the other hand, seeks ways to reduce the reliance on Russia for the provision of energy and diversify its sources of supply. Their different approaches are summarized in the conflict surrounding the Energy Charter Treaty (ECT) and competition over the pipeline route from Central Asia to Europe.

Energy Charter Treaty (ECT)

In December 1991 European countries created the ECT as a mechanism for cooperation in order to mitigate the possible negative impact of the impending dissolution of the Soviet Union, upon which they relied heavily for energy. As the

Table 4 EU(27) Energy consumption and imports (2005)

	Oil (mln. barrels)	Gas (bln. m ³)
Consumption	4,878.2	492.7
Production	979.4	208.3
Imports	4,609.1 (100%)	290.3 (100%)
	Russia	Russia
	1,378.0 (29.9%)	131.0 (45.1%)
	Norway	Norway
	714.7 (15.5%)	69.9 (24.1%)
	Saudi Arabia	Algeria
	444.9 (9.7%)	59.7 (20.6%)
	Libya	Nigeria
	370.9 (8.0%)	11.5 (4.0%)
	Iran	Libya
	259.5 (5.6%)	5.5 (1.9%)
	Other, Middle East	Egypt
	219.9 (4.8%)	5.4 (1.8%)
	Kazakhstan	Qatar
	193.5 (4.2%)	5.2 (1.8%)
	Algeria	Oman
	167.1 (3.6%)	1.9 (0.7%)
	Other	Other
	861.3 (18.7%)	0.1 (0.0%)
Import dependency ¹	82.2%	57.7%

Source: European Commission (2008b)

¹ definition: Import Dependency = Net Imports/(Bunkers + Gross Inland Consumption)

successor to the Soviet Union, Russian signed the ECT in 1994, but still has yet to ratify it. The main point of disagreement is a transit protocol existing in the treaty, which calls for open access for foreign companies to national transportation infrastructure including pipelines owned by Russia.

The EU's requirement for open access to national pipelines originates from the EU energy policy's emphasis on 'diversification' and 'liberalization': diversification of supplying partners and energy sources and liberalization of protective regulations. Diversification policy is an outgrowth of the EU's concerted efforts to prevent a situation in which Russia could use its dominant position as energy supplier as a tool for political pressure.

EU policymakers are worried that if Russia's Gazprom, a company that monopolizes gas exports overseas, dominates the gas supply and the distribution infrastructure in Europe, it would have excessive control of the continental market. That adds to a concern that Russia could one day use its gas supply as a political lever in its relations with Europe. From the standpoint of Russia and Gazprom, however, allowing foreign competitors to access its own pipelines would be tantamount to giving up its status as the dominant supplier in Europe. Russia would have to face a substantial loss of its market share in the EU to other suppliers, such as Central Asian countries, and be deprived of its price-control power. That is why Russia insists on holding on to its monopoly over gas pipelines to Europe from Russia and Central Asia.

Even if Russia doesn't ratify the ECT, it would not be able to prevent the EU's efforts to diversify its energy supply partners eventually. There are already projects developing in the EU in this direction. For example, Nabucco, Trans-Caspian, Trans-Afghan and other gas pipelines are being planned. Those projects are aimed at enabling oil and gas from former Soviet republics, including those in Central Asia and the Caspian region, to go to the European market in a diversified way without being controlled by Russia.

The Nabucco project

While it is in the best interest of Russia to maintain exclusive control of gas pipelines to Europe, it's equally important for the EU to eliminate this monopoly. That is why the EU plans to build pipelines that will connect it directly to the countries of the Caspian and the Central Asian regions, bypassing Russia. Emboldened by the successful construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline, the EU plans a new pipeline network called Nabucco. The 3,300 km pipeline will bring gas deep into the EU from the Caspian and Central Asian regions, with much of its supplies coming from Azerbaijan. For this, the national energy companies of five European states — Austria's OMV, Hungary's MOL MOLB.BU, Romania's Transgaz, Bulgaria's Bulgargaz and Turkey's Botas — are to shoulder the burden of the \$5.8 billion investment. The EU has given the project its own support, as the Nabucco is central to EU efforts to diversify gas supplies and reduce its dependence on Russia. Should the construction begin in 2008, the pipeline is expected to start carrying gas by 2011 with a maximum capacity of 30 billion m³ per year, reducing the export of Russian oil and gas to the EU by as much as one-fourth by 2020 (Kvochko and Lan'shina 2007: 6).

Russian counter-measures: the South Stream pipeline

In order to cope with these moves Russia's Gazprom has been working on counter-plans to set up their own new supply routes that traverse Russia. Currently, Gazprom only has two export channels to Europe — one via Ukraine and the other via Belarus. Both lines, however, share a common problem: the supply of energy to Europe gets threatened when Russia runs into disputes with Ukraine and Belarus. Indeed, when Russia turned off the gas supply to Ukraine in January 2006 and to Belarus in January 2007, EU countries reverberated with panicked talk of an energy crisis. Furthermore, these facilities are old and in need of repairs costing billions of dollars. This is why Russia is looking for new gas pipelines to Europe. For the Russian leadership, it would be even better if new venues could successfully compete with the Nabucco project.

The South Stream pipeline, a product of Russia's desire to continue to dominate the European energy market, was conceived by Gazprom as a joint venture with Italy's ENI. With the construction costs amounting to no less than 10 billion euros, the 900 km pipeline will be able to transport as much as 30 billion m³ of gas annually from Beregovaya, a Russian port on the Black Sea coast, to Europe through the Black Sea via Bulgaria.

This plan has caused controversy in the EU because of Italy's participation. As the EU is making it a major task to reduce its reliance on Russian energy and break up the Russian monopoly of pipelines, Italy is going against this policy direction by endorsing the Russian plan for further penetration into the European market. Russia appears set to play a "divide-and-rule" game vis-à-vis the EU in order to challenge the Nabucco project. From the standpoint of ENI, Italy's national energy corporation, joining forces with Gazprom could be an effective strategy to gain an advantage for access to oil and gas resources in Russia over its Western competitors.

Another case in point is Bulgaria where both the Nabucco and the South Stream pipelines are planned to traverse. Becoming the newest EU member country together with Romania in January 1, 2007, Bulgaria was offered by the EU to join the Nabucco project. But together with Italy, Bulgaria has agreed to join in the South Stream project by allowing the pipeline to pass through the country on its way from the Black Sea to two branch lines: one destined for Italy via Greece and the other destined for Austria via the Balkan Peninsula. Bulgaria is now torn between proving its EU credentials and maintaining its renewed ties with Russia. Receiving almost all of its oil and gas from Russia, Bulgaria is eager to diversify its energy sources by being a partner in the Nabucco pipeline, but is also attracted by South Stream because of lucrative transit fees.

The EU denies that the Nabucco project will be affected by South Stream and emphasizes that the EU project will proceed as planned. The EU maintains that the Nabucco pipeline, once completed, will diversify Europe's gas imports by providing access to gas produced not only in Central Asia and the Caspian Sea, but in countries such as Iraq and Iran.

Aside from building counter-pipelines like the South Stream, Gazprom is making every effort to keep as much control as it can over the export of Central Asian energy resources to Europe. The Russian gas giant concluded a landmark deal in March 2008 with three Central Asian states: Kazakhstan, Uzbekistan, and

Turkmenistan. In that deal, Gazprom agreed to pay “European prices” for gas delivered in 2009, no less than \$350 per 1,000 m³. This is going to be a more-than-double increase from the prices the company has been paying to these countries. The price hike agreement could be a dramatic turning point in the race between Russia and the EU for gas from Central Asia and might signal the end of the EU's plan to transport Central Asian gas through the Nabucco pipeline and away from Russian control. This agreement is likely to bring the Central Asia states closer to the Russian side and deprives Kazakhstan, Turkmenistan and Uzbekistan of incentives to get involved in the EU's Nabucco project.

Recently Russia's reliance on cheap Central Asian gas has increasingly come under threat because Central Asian countries have attempted to expand their energy partners to include countries other than Russia, while striving to become more independent from Russia and make the most of their energy resources. For example, Turkmenistan concluded an agreement with China in 2007 to provide 30 billion m³ of gas each year for 30 years, with Beijing agreeing to finance a new pipeline to carry it to China's Xinjiang province. On the top of increasingly independent moves by Central Asian energy producers, Gazprom has been seeing its own production of natural gas declining with no new gas fields in operation since 1991. The company has even been warned by Russia's Industry and Energy Ministry that if the decline continues, Russia may be unable to service its own domestic gas needs by 2010 (Matthews 2007).

Under these circumstances, for all its present position as Europe's dominant energy supplier, Russia simply cannot allow Central Asian energy resources to be siphoned off to Europe. That was why Russia had to accept the demands of Central Asian countries even though the new higher prices put Gazprom in a difficult position financially.

A summary view of the Russian-EU energy relationship

In many traditional measurements of power, Europe is stronger than Russia: the EU's economy (\$16.8 trillion) is 13 times the size of Russia's (\$1.3 trillion), its population (495 million) is three-and-a-half times the size of Russia's (142 million), and its total military spending is ten times larger. In terms of trade volume, the EU is by far Russia's most important trade partner, while Russia is only EU's third largest trading partner. Unfortunately, because of a lack of unity among EU member states over energy security, Russia has been able to exert considerable influence over EU policy. Russia's strategy of ‘divide and rule’ thus far has worked very effectively.

In principle, EU countries have agreed on the need for collective energy security programs to maximize its bargaining power vis-à-vis its primary energy supplier, Russia. But when it comes to a specific policy, they often have failed to be strategic and united; instead they have rushed to secure their own energy interests rather than following a more coordinated collective approach. Behind the façade of unity, even key member countries are scheming to secure their own energy interests. Disarray over the Nabucco pipeline project provides such an example.

In short, individual EU countries are being played by Russia in its ‘divide and rule’ game. Aside from luring Italy and Bulgaria into the South Stream project, Russia has formed diverse energy ties with other EU member countries on an

individual base. In the spring and summer of 2007, Austria, Italy, and Hungary negotiated separate deals with Gazprom, even though these deals may undermine the Nabucco project. Germany, while very wary of Russia's growing influence, is continuing to cooperate with the Kremlin through such projects as the Nord Stream gas pipeline.¹ It is primarily aimed at bypassing Ukraine, Belarus, and Poland, three countries with which Russia has had conflict over many issues including gas prices. Germany considers the project far more important than keeping solidarity with its EU partners such as Poland; Germany knows that, when Nord Stream is completed, Russia can suspend gas supply to Poland as well as Ukraine and Belarus without having to take the political burden of risking the supply of gas to the western European countries. From Greifswald, Germany, Russian gas can be transported onward to neighboring countries through its branch lines. Therefore, it is not purely a German-Russian project; other western European countries are looking forward to benefiting from the construction of Nord Stream as well. It is notable that even a country like the U.K., a European country which tends to be the most critical of Russia on human rights and democracy, rushed to make the most of this Russian-Germany gas pipeline; British Prime Minister Tony Blair and Russian President Vladimir Putin signed a memorandum of understanding in June 2003 to co-operate in the construction of branch line extended from Nord Stream. Given this record, Blair's call for a common European energy policy, which he made in a speech to the European Parliament in October 2005, rings hollow (Blair 2005).

Russia and Northeast Asia

East Siberia and the Far East

In contrast to the EU, Russia has not yet established a strong position in Northeast Asia. In fact, Russia has been a non-factor in the Northeast Asian balance of power for almost two decades. Russia does have a great potential to achieve relevance, however, as the massive energy wealth it reportedly has in East Siberia and the Far East raises its profile in the region.

So far, the global energy power status of Russia depends heavily on production in West Siberia, where the Tyumen oil/gas field is located. By comparison, oil and gas production in East Siberia and the Far East has been negligible. As of 2006, East Siberia and the Far East produce only 4.15% and 1.48% of crude oil and natural gas in the Russian Federation (Goskomstat 2007).

When it comes to reserve volume rather than production, however, East Siberia and the Far East are considered to be Russia's biggest asset enabling the country to maintain its status as a global energy power into the future. One estimate claims that as much as 75% of Russia's energy resources are located in East Siberia and the Far East (Simonia 2006), which have been compared to the final frontier of Russia's energy resources exploration.

¹ Its operating company, Nord Stream, is a joint venture between Russia's Gazprom and Germany's BASF and E.ON.

Energy situation of Northeast Asian countries

Russia's East Siberia and Far East territory are proximate to great energy markets in Northeast Asia. This offers a big incentive for Russia to develop the hitherto untapped energy resources in these regions because Northeast Asia has become a principal driver of fluctuations in world energy markets and countries in the region have a keen interest in utilizing Russian resources. Japan, China, and South Korea are some of the world's top energy consuming countries and rely heavily on foreign imports. Especially notable is China's remarkable growth in consumption in recent years. The continuing surge in China's demand for oil, which rose by 15% or almost 1 million barrels per day in 2003 alone, has emerged as a major factor influencing world oil prices. China's demand for oil and gas is projected to increase at 3.8% and 6.5%, respectively, per annum until 2030 (EIA 2006a).

On the top of Northeast Asia's extraordinary increase in reliance on foreign imports, what is perhaps more notable is that the foreign suppliers to countries in the region are concentrated in the Middle East. As of 2006, about 66% of the three Northeast Asian countries' oil consumption was supplied by the Middle East. Japan and South Korea, with little oil reserves, rely on Middle Eastern imports of 80.4% and 74.8%, respectively (EIA 2006b). China is less dependent on the Middle East, but the dramatic increase in energy consumption in the PRC has also forced Beijing to actively search for new oil and gas suppliers.

Russian policy direction toward Northeast Asia

Due to these circumstances, the Russian government has set direction for its new energy policy, emphasizing the need to develop oil and gas in East Siberia and Far East. On the one hand, Russia finds in Northeast Asia a huge market for export of its energy resources. To China, Japan, and South Korea, too, the largely undeveloped resources of East Siberia and the Far East are viewed as an important supply option. Therefore, Russia sees a great opportunity to induce funds for developing energy resources in East Siberia and the Far East.

Currently, however, these Northeast Asian countries import only a limited amount from Russia (Table 5 and 6). This creates a huge opportunity for Russia to expand energy export markets into Northeast Asia and induce investment for energy development in East Siberia and the Far East.

According to *Enyergeticheskaya strategiya Rossii na period go 2020 goda* (*The Russian Energy Strategy until 2020*), which was published by the Russian

Table 5 Import dependency of NE Asian countries: oil (2005) (unit: mln barrel)

	Consumption	Import	Import from Russia
China	2,402.8	930.9	110.0
Japan	1,788.5	1,561.3	11.0 ¹
S.Korea	772.6	843.0	13.9 ²

Source: EIA (2006b)

¹ Japanese Ministry of Internal Affairs and Communications (2008)

² Korea National Oil Corporation (KNOC) (2008)

Table 6 Import dependency of NE Asian countries: gas (2005) (unit: bln m³)

	Consumption	Import(B)	Import from Russia
Japan	87.3	80.9	0
China	46.9	0.0	0
Korea	30.4	29.5	0

Source: EIA (2006b)

government in August 2003, Russia aims to increase its oil exports to the Asia-Pacific market from 3% of its total oil exports to 30% by 2020, which will be equivalent to 100 million tonnes. Concerning natural gas, Russia hopes to raise the Asia-Pacific proportion to 15%. At the same time, Russia anticipates an infusion of investment from Northeast Asian countries to promote infrastructure and energy resource development (Minenyergo Rossii 2003).

In order to make this plan possible, the Russian government has begun construction on a crude oil pipeline from East Siberia to the Pacific Ocean (ESPO). This ambitious project is expected to be the world's longest oil pipeline, pumping up to 1.6 million barrels per day over a distance of 4,200 km. The ESPO is Russia's first pipeline to Northeast Asia, aimed ultimately to unlock the supposedly vast oil reserves in East Siberia and the Far East.² Moscow relies heavily on successful execution of the ESPO project as the critical infrastructure to strengthen its presence as a major energy supplier in the Asia-Pacific region.

Russia's 'divide and rule' strategy in NE Asia

Moscow decided upon the ESPO through a long process of diplomatic maneuvers vis-à-vis China and Japan. Russia has been quite successful so far in encouraging such regional countries as China and Japan to compete for its energy resources in East Siberia and the Far East.

Moscow first presented proposals to China for a Sino-Russian partnership back in the mid-1990's. This was an extension of the Sino-Soviet rapprochement initiated by Gorbachev in the late-1980's. After the dissolution of the Soviet Union, Russia's continued approach toward China produced a Government Agreement on Energy Cooperation in 1996. The apex of Sino-Russian cooperation was reached in 1999 when they joined forces in opposing the United States and NATO on the Kosovo War, the U.S. missile defense system, and other issues. In parallel with the strengthening of ties between the two governments, their biggest energy companies — Russia's Yukos Oil Company and China's National Petroleum Corporation (CNPC) — teamed up to build a Siberian oil pipeline from Angarsk to Daqing in 1999. Through the 2,240 km oil pipeline, according to this initial agreement, Russia's Yukos would provide CNPC 20–30 million tonnes of crude oil per year for 25 years. The plan subsequently went through a further substantiation process and was officially signed by the heads of the two countries in May 2003, when President Hu Jintao made his first trip abroad to Russia.

² For a detailed analysis of the ESPO project, see Itoh (2007).

In the meantime, Japan grew increasingly worried about China's gaining monopoly access to East Siberian oil and presented a competing plan to Russia. In late 2002, Japan offered a Angarsk-Nakhoda pipeline proposal with a financing program exceeding \$15 billion. This counter-offer was officially confirmed by Japanese Prime Minister Juinchiro Koizumi at the time of his visit to Russia in January 2003. Following the Hu-Putin agreement of May 2003, Japan undertook a desperate lobbying effort. Closely following Hu's visit, Koizumi made another visit to Russia in the same month and met with Putin in St. Petersburg. At this meeting, Putin finally showed a favorable response by saying, "There is an argument that the China route pipeline could be constructed more quickly and more cheaply, but developing the undeveloped resources of Siberia and sending them to the Asia-Pacific region and world market are also important" (Japanese Ministry of Foreign Affairs 2003). This evidently signaled that Russia was ready to seriously reconsider the decision to build Angarsk-Daqing pipeline after many years of talks with China. Since then, China and Japan began to stage an intense competition over the pipeline route. The competition was accompanied by a series of Sino-Russian and Japanese-Russian memoranda of understanding, joint communiques, and declarations of intent, each ostensibly negating the one before it.

After 2 years of deliberation, Moscow decided the "final" route on December 30, 2004: the pipeline, named ESPO, was to be built from Taishet to Kozmino Bay on the Pacific coast with a branch line planned to run from Skovorodino to Daqing. The Kremlin might have reasoned that the Pacific route could open bigger markets in the Asia-Pacific than just the China route. Another consideration might have been that Japan could make investments on a larger scale than China to cover the costs of pipeline construction and the development of energy resources in East Siberia and the Far East.

Failure of Russia's energy diplomacy toward Northeast Asian countries

Although Russia has tried to get the most by keeping China and Japan competing for its resources, the policy has not produced the results for which it aimed. So far Russia's 'divide and rule' strategy does not look as effective in Northeast Asia as it is in Europe. Many factors have intervened to make Russian policy less effective.

China reconsiders

China saw the earlier Angarsk-Daqing project buried with the ESPO route officially decided by Moscow in favor of the Japanese proposal. The Kovykta project was another case of China's disappointment. After a 3-year's feasibility study, the project took off under the consortium of RUSIA Petroleum which was a subsidiary of TNK-BP, CNPC of China and KOGAS of South Korea in November 2003. The project, once regarded as a landmark case of energy cooperation between Russia and Northeast Asia, has been discarded later on like the Angask-Daqing pipeline by Moscow since Gazprom took over the operating right from TNK-BP. It is widely suspected that Gazprom is turning the Kovykta gas development from an export-oriented project into more of a domestic-consumption project. The failure of these two landmark projects has led China to lose trust in Russia's reliability as an energy partner, in spite of the huge potential for greater energy interdependence.

Japan also reconsiders

When the ESPO project was chosen, it was widely understood that Moscow's priority was Japan and the broader Asia-Pacific market, rather than China's competing lobby. Interestingly, however, there has not been a rush of Japanese investment in the ESPO project. Uncertainties still remain on the future of Russo-Japanese energy cooperation, even though the ESPO should provide Japan access to new oil sources and reduce the risk of its reliance on Middle East resources.

A key problem is the enormous cost of energy development in East Siberia and the Far East, and possibly high prices of Russian oil that would be exported to Japan through the ESPO. Unlike the "Urals" crude oil developed in West Siberia, which is exported to Europe, the cost for oil production in East Siberia and the Far East will have to be substantially higher because of the harsher development environment. Therefore, the Russian oil Japan will import through the ESPO is likely to be substantially more expensive than the equivalent exported to Europe. Japan fears that Russian oil may end up not being very attractive in terms of price. In the long run, the share of Russian energy in the Japanese market will solely depend on its price. But Russian oil may not have a price advantage over Middle East oil because of higher development costs. Given this possibility, Japan seems to have lowered its expectation of the benefits of the ESPO and has had second thoughts about investing in development and infrastructure projects related to it.

In addition, the neo-nationalist trend in Russia's energy policy also deters Japan from making a large-scale investment. Japan already had a bad experience in the Sakhalin-2 oil-and-gas project. The project was begun in the 1990's—when the price of oil hovered at around \$10 per barrel—under an international consortium, Sakhalin Energy, in which Mitsui (25%) and Mitsubishi (20%) participated together with Royal Dutch Shell (55%). As energy prices rose, however, the Putin administration began to promote a strategy to place energy projects completely under national control. In September 2006, the Russian Natural Resources Ministry froze a key environment permit for the project, citing problems with conservation, but it was widely believed that the accusation was only a veiled ploy to pressure Sakhalin Energy to renegotiate the original deal to the Kremlin's benefit. Among other things, the Russian government wanted to change the terms of the contract, or PSA (product-sharing agreement). Under the PSA, the Russian government could not receive any profits until the project operator recouped investment costs. Therefore, when the Sakhalin-2 operator, citing higher steel prices and a weakened U.S. dollar, announced it would have to double costs to \$22 billion, it meant that Russia would have to wait a much longer time before receiving any profits out of the deal. Eventually, the conflict was resolved with rearrangement of the shareholding structure of Sakhalin Energy: each of the three foreign shareholders ceded half of their shares to allow Gazprom to secure more than 50% of the shares. Now Gazprom has a controlling interest in the Sakhalin-2 project, with the two Japanese participants' shares reduced to 12.5% and 10%, respectively.

Through the experience of the renegotiation of the Sakhalin-2 deal, along with doubts about the eventual price levels of energy resources produced in East Siberia and the Far East, Japan has been withholding large-scale investments in energy development projects such the ESPO.

Sino-Japanese cooperation

Contrary to Russia's expectations, China and Japan began to move beyond the competitive scramble for Russian energy sources and sought to improve their relationship and cooperate in the field of energy. It seems that Beijing and Tokyo increasingly find that competition over the Siberian pipeline is not in their best interests, as this reduces their bargaining power vis-à-vis Russia.

The Japanese government under Prime Minister Shinzo Abe made the strategic decision to initiate a dramatic rapprochement toward China, which included efforts to promote energy cooperation and bring an end to the competition. Sino-Japanese ties had been deteriorating, especially over then-Prime Minister Koizumi's repeated visits to Yasukuni Shrine, where several Class A Pacific War criminals are entombed. The annual visits resulted in large-scale anti-Japanese demonstrations in Beijing, Shanghai, and other parts of China, which in turn ignited anti-Chinese sentiment in Japan. Also, Japan and China have sparred over energy rights in the East China Sea, which is believed to hold reserves of natural gas.

Shortly after coming to power, Abe visited China in October 2006 in an effort to reverse Japan's deteriorating bilateral relationship with China. In his summit meeting in Beijing with President Hu — the first Japan-China summit held in China since October 2001 — the two leaders agreed, for the first time in the two nations' bilateral relations, to work toward a “strategic partnership” in which energy was cited as a priority area for cooperation. As far as energy diplomacy was concerned, Japan's Trade Minister Akira Amari noted, “Cooperation between the two countries is much preferable to competition that gives suppliers the upper hand and increases uncertainty” (International Herald Tribune 2006).

Wen Jiabao, China's Prime Minister, returned Abe's China visit in April 2007. In Tokyo, Abe and Wen confirmed the decision to establish annual ministerial-level dialogue on energy, in addition to broader dialogue on economic issues. Akira Amari and Ma Kai, head of China's National Development and Reform Commission, also signed a joint statement on comprehensive bilateral cooperation in energy. Concerted efforts by Japan and China to improve their bilateral relationship led to a state visit by Hu to Japan in May 2008, which was the first occurrence in a decade. In that summit meeting, the two sides reconfirmed to continue ministerial-level dialogue to explore ways of developing energy cooperation.

The central Asian factor

In trying to mitigate their excessive dependency on the Middle East, Northeast Asian countries are also knocking on the doors of Central Asian republics. At the same time, Central Asian energy producers are also looking to expand export markets to avoid excessive dependence upon their hitherto single buyer, Russia.

China has been the forerunner in opening up the path to Central Asia, but Japan and South Korea are not far behind. China strengthened its approach to Central Asia when they lost to Japan in the race for Siberian oil pipeline. For example, in late 2005 the 1,000 km Atasu-Alashankou pipeline, the first pipeline to bring Kazakh oil directly to China without going through Russian territory, was opened and 200,000 barrels of oil are being imported through it each day. The pipeline is supposed to be

extended farther westward to Kazakhstan's oil fields in Atirau on the Caspian coast. China is also seeking to build a gas pipeline to link Shanghai with gas fields in Turkmenistan, and possibly Uzbekistan. China has also discussed and signed numerous other deals with Central Asian energy producers. For example, China landed a major deal with Turkmenistan to construct a multi-billion dollar gas pipeline to Gangzhou, which is expected transport some 30 billion m³ a year.

Japan has also begun to seek access to oil and gas in Central Asia with greater interest being a part of efforts to diversify energy import sources. In August 2006, Koizumi traveled to Kazakhstan and Uzbekistan. Japan has also approached Azerbaijan to seek increased opportunity for Japanese investment in new oil and gas projects. Aside from these energy-focused approaches, Japan has tried to build programs for improved diplomatic ties with Central Asian countries on a broader basis. For instance, shortly before Koizumi's trip to Central Asia, Japan opened the "Central Asia plus Japan Dialogue," a meeting of foreign ministers in Tokyo between Japan and four Central Asian countries (to include an observer from Afghanistan). In the meeting, an action plan for regional cooperation was discussed in which Japan will help those countries to improve their border management and fight terrorism and the drug trade in the region. Japan and the Central Asian countries also signed an agreement to promote cooperation, which included a plan to build roads in Tajikistan to transport natural resources via Afghanistan to the Indian Ocean. Although Japan does not directly import oil from Central Asia at the moment, it is keen on laying out a diplomatic foundation as a part of long-term energy diplomacy toward the region.

South Korea is not neglecting Central Asia, either. Former President Roh Moo-hyun began energy summit diplomacy with Central Asia countries in May 2006. The trip included a visit to Azerbaijan, where he signed contracts for a sizeable stake in a joint oil development project in Inam, estimated to be worth two billion barrels of crude oil. It was later learned that South Korea's KNOC considered buying shares of Azerbaijan's state oil company (SOCAR). South Korea also has promoted energy cooperation with Uzbekistan. The two governments agreed to explore oil fields estimated to have 820 million barrels of crude oil. Uzbekistan also agreed to give South Korea's KNOC a 20% stake in an international consortium to develop a gas field in the Aral Sea.

The current government under President Lee Myung-bak lost no time in strengthening South Korea's energy diplomacy toward Central Asia. Lee appointed Han Seung-soo, a veteran diplomat, as his first Prime Minister, primarily to assign "resource diplomacy" as his primary mission. He chose Central Asia as a region deserving major focus for energy diplomacy, making a tour of four countries—Uzbekistan, Kazakhstan, Turkmenistan, and Azerbaijan—to discuss joint development of energy and natural resources while trying to improve economic and diplomatic cooperation with those nations. South Korea's activation of energy diplomacy toward Central Asia is partly a result of Seoul's disappointment at the lack of tangible results in its own oil and gas deals with Russia.

Conclusion

In Europe, Russia has been quite effective in consolidating its dominant position as energy suppliers, and has been equally successful in nullifying the EU's attempt to

produce a united front by forming individual energy relationships with various EU member states. A strategy of 'divide-and-rule' has been at the center of Moscow's energy diplomacy toward Europe.

Russia also has been turning the attention of its energy diplomacy toward Northeast Asia, where the energy consumption has been rising most remarkably. Russia's goal of becoming a major energy supplier to Northeast Asia, however, has stalled even though there is an apparent harmony of interests among the major energy consumers of the region. Russia needs markets, pipelines, and investment capital for its untapped resources in East Siberia and the Far East; China, Japan, and South Korea need reliable and affordable energy sources to meet their rising demands and reduce their excessive dependence on supplies from the Middle East. But, the progress of energy cooperation between Russia and Northeast Asian countries has been slower than both sides initially hoped. This slow progress was the result of many factors, particularly the four factors discussed in this paper. Overall, the primary reason for delays has been Russia's failure to gain the trust of Northeast Asian countries in the course of its energy diplomacy under the Putin administration.

Today Russia is providing only a fraction of the oil and natural gas consumed in Northeast Asia (Table 5 and 6). This is largely due to a lack of infrastructure needed to develop the resources and transport them to Northeast Asian consumers. If Russia wants to become a major energy provider in Northeast Asia, as it has established itself in Europe, the Russian government should do everything it can to provide attractive incentives and a hospitable environment for regional neighbors to invest in resource development in East Siberia and the Far East to increase dependence on those resources. Moscow's policy, however, has not been so successful in convincing Northeast Asia that the investment is justified, either economically and politically.

Economically, it still is hard to estimate how much it will cost to develop the energy resources located in Russia's harsh natural conditions and transporting that energy more than 4,000 km to Northeast Asian consumers. As a result, the price competitiveness of those resources is not certain in comparison with oil and gas imported from other areas, such as the Middle East. It is true that Northeast Asian countries are worried about their excessive dependence on the Middle East, where chronic political instability threatens reliable supplies of energy resources. But, price and cost also matter; if oil and gas developed in East Siberia and the Far East should cost too much, Russia won't have markets in, or draw investment from, Northeast Asia.

The need for Northeast Asian countries to reduce their reliance on the Middle East may be similar or comparable to how EU countries feel about Russia's dominant position as their energy resources provider, but their diversification needs are quite different in nature. In the case of the EU, the most urgent reason for diversification efforts is that Moscow has actually flexed its energy muscle at its partners. Russia has tried to impose its policy on, and has suspended oil supplies to, Latvia (January 2003), Lithuania (July 2006), and natural gas supplies to Ukraine and Georgia (January 2006), Poland (October 2006), and Belarus (January 2007). Therefore, the threat perception that the EU has about Russia is a real, rather than potential, one. In the case of Northeast Asian countries, by contrast, the risk presented by the Middle East is a potential, rather than an immediate, one. Oil producers in the Middle East have not used their supply of energy resources as a

policy weapon since 1973. Furthermore, unlike the situation with Russia, Northeast Asian countries import oil and gas from a wide range of oil producers—not a single oil giant—in the Middle East. Therefore, Northeast Asian countries do not have as desperate a need for diversification as the EU.

In political terms, Northeast Asian countries are not convinced that investment in Russia is safe. The neo-nationalist tendencies and arrogance of the Putin government has dampened the desire of Northeast Asian countries to invest. China saw the Angarsk-Daqing pipeline project, which had been in discussion for 9 years and was finally agreed to at a state summit, overturned overnight. Japan saw how the Kremlin pressured Mitsui and Mitsubishi to give up their shares of Sakhalin Energy and turn the Sakhalin-2 into a Gazprom project. South Korea also has numerous experiences with energy projects that were agreed to with the Kremlin get stalled later on after Moscow's unilateral change of mind, as the Kovykta gas project showed.

Moscow seems to forget the reality that Russia is in competition with other energy producing countries. In other words, Russia is not the only alternative energy source to which Northeast Asia can turn if they indeed need to reduce their high reliance on the Middle East. Central Asia, including the Caspian region, is actually in competition with Russia for energy deals with Northeast Asian countries.

While Russia has failed to create a favorable investment climate in East Siberia and the Far East, Northeast Asian countries have their own weaknesses to overcome: they lag far behind the EU in developing a multilateral coordination body to collectively deal with Russia on energy resources. A nascent movement has only recently emerged, joined by other major energy consuming countries like the United States and India. This will certainly strengthen their bargaining power vis-à-vis oil exporters like Russia, but it will also be a long while before those regional actors are able to overcome impediments to the successful progress of that movement.

Acknowledgements The author is grateful to those who made helpful comments on the draft at the 2nd World International Studies Conference (WISC), 23-26 July 2008 (Ljubljana, Slovenia), including Bertil Nygren, Charles E. Ziegler, Rajan Menon, and Roger E. Kanet. I also appreciate the kindness of Shoichi Itoh who was willing to help my research by sharing his works.

References

- Blair T (2005) PM speech to the EU Parliament in Strasbourg. October 26 <http://www.number-10.gov.uk/output/page8384.asp>
- EIA (2006a) International energy outlook. [http://www.eia.doe.gov/oiaf/archive/ieo06/pdf/0484\(2006\).pdf](http://www.eia.doe.gov/oiaf/archive/ieo06/pdf/0484(2006).pdf)
- EIA (2006b) International Petroleum Monthly (IPM) <http://www.eia.doe.gov/ipm/imports.html>
- European Commission (2006) EU and the World: External Trade: Russia. http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113440.pdf
- European Commission (2007a) The European Union and Russia: Close Neighbours, Global Players, Strategic Partners. http://ec.europa.eu/external_relations/library/publications/34_eu_russia.pdf
- European Commission (2007b) The European Union and Russia: Statistical Comparison. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-77-07-231/EN/KS-77-07-231-EN.PDF
- European Commission (2008a) External and intra-EU trade: Statistical yearbook - Data 1958–2006. http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CV-07-001/EN/KS-CV-07-001-EN.PDF
- European Commission (2008b) EU Energy in Figures 2007/2008. http://ec.europa.eu/dgs/energy_transport/figures/pocketbook/doc/2007/2007_energy_en.pdf

- Gazprom (2006) Godovoi Otchet 2006. http://www.gazprom.ru/documents/Report_Rus.pdf
- Gazprom (2008a) Gazprom v Voprosakh i otvetakh: Prodazha gaza vnutri strany. <http://www.gazpromquestions.ru/index.php?id=35>
- Gazprom (2008b) Gazprom v Voprosakh i otvetakh: Prodazha gaza vneshnem rynke. <http://www.gazpromquestions.ru/index.php?id=34>
- Goskomstat (2007) Regiony Rossii: Sotsialno-Ekonomicheskie pokazateli.
- International Herald Tribune (2006) Japan and China pledge energy dialogue. December 17. <http://www.iht.com/articles/2006/12/17/business/summit.php>
- Itoh S (2007) The pacific pipeline at a crossroads: dream project of pipe dream. *Erina Report* 73:42–62
- Japanese Ministry of Internal Affairs and Communications (2008) Japan statistical yearbook. <http://www.stat.go.jp/english/data/nenkan/index.htm>
- Japanese Ministry of Foreign Affairs (2003) Japan-Russia summit meeting (Overview). <http://www.mofa.go.jp/policy/economy/summit/2003/russia.html>
- Korea National Oil Corporation (KNOC) (2008) Petronet <http://www.petronet.co.kr/htm/eng/index.jsp>
- Kvochko EA, Lan'shina TA (2007) Problemy i perspektivy sotrudnichestva Rossii i EC v ramkakh energeticheskovo dialoga. http://www.iori.hse.ru/publications/herald/material/h4/analytical_material_1.pdf
- Matthews O (2007) Russia's big energy secrete. *Newsweek*, December 31.
- Minenergo Rossii (2003) Enyergeticheskaya strategiya Rossii na period go 2020 goda. <http://www.minprom.gov.ru/docs/strateg/1>
- Simonia NA (2006) Energy cooperation as a main link to the efforts to bring stability and peace in the Korean Peninsula and the Asia-Pacific. Energy, regional security, and the Korean Peninsula: toward a Northeast Asian energy forum workshop, November