

Book Review

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RUSSIAN ENERGY IN A CHANGING WORLD: WHAT IS THE OUTLOOK FOR THE HYDROCARBONS SUPERPOWER?

Edited by Jakub M Godzimirski

This volume gathers nine contributions that revolve around the complex interplay between Russia's energy policy and the changing international energy environment. The dramatic consequences of the 2008 economic crisis, i.e. the transformation of Russian perceptions of the energy sector as the catalyst of economic growth into an obstacle on the path to modernization, forms the back-bone of the volume. A major strength of the collection is that Jakub Godzimirski has brought together a multidisciplinary scholarship, each drawing from their respective backgrounds in International Relations, Business, Economics and Russian Studies. This allows for a wide range of perspectives and approaches in examining the impact of collapsed world energy prices and the faltering demand for Russian energy in the wake of the global crisis. The volume is recommended to anyone interested in International Political Economy in general, and Energy Studies in particular. The relationship between the economic foundation of energy reserves and production forecasts is connected to often competing political goals such as tight state control over the energy sector and diversification of energy exports towards Asian markets. Beyond that, the book also provides ideas and discusses concepts of interest for area specialists in the field of Post-Soviet Studies. The analyses dig deeper than the surface of formal politics, unmasking the features of informal politics among Russia's energy elite.

The first three chapters aim to draw a broader picture of the post-crisis situation in the Russian energy sector, focusing on three key points: who, what, and how. In Chapter One, Godzimirski identifies the key actors and their ideas that shape Russian energy policy. He argues that the neo-patrimonial bonds between the political and business elites are still in place, regardless of Dmitry Medvedev's announcement on 30 March 2011 that representatives of the state were to be removed from the boards of state-owned companies. In Chapter Two, Valeryi Kryukov and Arild Moe offer a detailed account of the resource base so as to assess Russia's capacity to meet energy demand in the coming decades. They differentiate between (proven) reserves and (estimated) resources, and systematically discuss a range of aspects in relation to the future availability of exploitable energy resources, from the number of new reserve discoveries, to current production, as well as the legal framework of taxation. The chapter draws a gloomy picture of a decreasing number of discoveries, a falling recovery rate, and uncertainties about the volumes and qualities of reserves ready to be developed. Establishing the 'how', Chapter Three by Tatiana Mitrova identifies three main challenges of the 2008 economic crisis to Russia's energy sector, and discusses the government's policies to counter them. They encompass diversification of export markets to the East, diversification of the product structure of exports, and diversification of export routes to reduce transit risks and costs while combatting the loss of external funding and lower demand for Russian products and services.

Chapters Four to Six further elaborate on the impact of the global financial crisis on Russia's energy sector with regard to the modernization of the economy, foreign policy and diversification

strategies. In Chapter Four, Derek Averre assesses the role of energy in Russia's modernization programme, testing the Russian assumption that energy resources will be crucial to develop the sector, and evaluates to what extent this creates a platform for the modernization of the entire economy. The author makes the case for reducing reliance on hydrocarbons rents to sustain stability as a substantive part of the process of modernization. In Chapter Five, Irina Busygina and Mikhail Filippov examine the link between the resource curse and its relation to foreign policy. The authors offer a theory-based explanation of why cooperation between Russia and the EU has remained so severely limited in many areas of mutual interest. The authors attempt to explain the paradoxical observation that while EU-Russia mutual trade dependence increased before the crisis, political relations deteriorated. They argue that the Russian elite at least temporarily managed to maintain openness to the West by effectively discrediting all Western voices through "virtual conflicts". Chapter Six provides an analysis of Russia's acute need for an export diversification strategy to counteract dependency on the EU market. Pavel Baev discusses Russia's pipeline strategies towards Europe and the Asia-Pacific, arguing that whereas the former strategy focuses on bringing Turkey in, striking transit deals with the Balkans to undermine EU competitive projects and locking out Ukraine so as to reduce transit risks, the latter strategy tries to keep China friendly, Central Asia stable and the USA attentive.

The final chapters, Seven to Eight, offer an economic analysis on overcoming the crisis and drawing scenarios for the future. In Chapter Seven, Lars Lunden and Daniel Fjærtøft investigate whether increased domestic gas prices will lead to increased Russian export. The authors identify several micro economic conditions which must be met, concluding that 'unless domestic price hikes can be accompanied by reforms in other areas, the additional volumes of gas available for export will be limited' (p.131). Chapter Eight draws scenarios of Russia's future gas production. Eini Laaksonen, Hanna Mäkinen and Kari Liuhto discuss the larger picture of Russia's challenges within the global gas market, highlighting not only rising EU import dependence, but also addressing Japan's and China's increasing energy hunger and the impact of the US shale gas revolution.

The greatest strength of the volume is precisely that it brings together an impressive amount of different perspectives that complement and reinforce each other's findings. The legal framework of the energy sector, major policy initiatives such as Russia's Energy Strategy until 2030, diversification of the foreign and domestic discourses of the Russian energy elite, and economic perspectives on energy pricing are extensively covered. These perspectives are empirically well documented with tables and figures that illustrate the political and economic environment in which Russia's energy elite operates, and highlight the challenges ahead.

Furthermore, the focus on a producer country such as Russia breaks with the current bias in the literature on energy security operations towards consuming countries' security of supply. The energy skirmishes between Russia and Ukraine caused a great deal of attention about security of supply, resulting in equating energy security with security of supply. Godzimirski in contrast managed to gather not only Russian perspectives regarding the security of supply, but also delivers complex analyses of producer countries' strategies in securing stable demand for their energy resources. Another added value of the volume is the identification of multiple linkages between Russia's domestic energy policies and the EU's security of supply. Investment and production capacity issues (Chapter Two), diversification policies towards the Asia-Pacific (Chapter Six), and regulated domestic gas prices at low levels (Chapter Seven) all negatively influence the EU's future energy imports. The latter highlights the need for domestic price increases and price reform. In theory, these reforms would stimulate Russia's energy savings, which leaves more room for export to the EU and in turn incentivise upstream investments that would stimulate export production capacity to Europe. However, this theoretical effect might be much smaller than expected because of rising domestic energy demand (income effect) and the observation that Russians adapt their

energy consumer behaviour in response to price increases (price inelastic demand) only to a small degree (Chapter Seven).

The argument that low domestic energy prices are used to cushion social tensions is mentioned several times throughout the book, yet lacks a more detailed analysis. It might have been interesting to include a separate chapter on this social acceptability aspect of energy security. This would shed new light on the trade-off the Russian government is facing: increasing domestic energy prices for the sake of increased energy efficiency and savings comes at the cost of fueling social discontent. As concerns ecologic acceptability, attention is mainly focused on energy efficiency, rather than on climate change. Godzimirski identifies the absence of linkage between energy and climate change. This observation certainly challenges the reader to look for explanations in the volume, nevertheless, the question is not explicitly answered. In sum, despite small shortcomings in the social and ecologic dimensions of Russia's energy security, this volume is doubtless of added value in the fields of International Political Economy, Russian Studies and Energy Studies.



BIBLIOGRAPHIC INFORMATION

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