



THE GEOPOLITICS OF ENERGY PROJECT

THE SINO-RUSSIAN GAS PARTNERSHIP: EXPLAINING THE 2014 BREAKTHROUGH

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BELFER CENTER for Science and International Affairs

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The Geopolitics of Energy Project
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Cover photo: Russian and Chinese state representatives stand before the ceremonial ground-breaking of the Power of Siberia gas pipeline in Yakutsk, Russia, September 1, 2014. (Gazprom)

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About the Geopolitics of Energy Project

The Geopolitics of Energy Project explores the intersection of energy, security, and international politics. The project, launched in 2011, aims to improve our understanding of how energy demand and supply shape international politics – and vice versa. It also endeavors to inform policymakers and students about major challenges to global energy security and, where possible, to propose new ways of thinking about and addressing these issues. The project focuses both on conventional and alternative energies, as both will influence and be influenced by geopolitical realities.

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Abstract

The clinching on May 21, 2014 of the long-anticipated Sino-Russian deal in the wake of Russia's souring relations with the West over Ukraine has prompted a flurry of speculation on the deal's implications, not only for global energy markets but also for geopolitical security among the big powers in the rapidly changing world order. In Moscow, officials insist that the deal with China is only part of a more overarching "pivot to Asia." In fact, in 2013, Russia sent more than 30% of its oil exports—more than 1.2 million barrels a day, the most ever—to Asia. But almost half of that energy is heading to one place in Asia: China, the big winner of the deal. Russia's heightened tensions with Europe have created incredibly favorable conditions for Chinese energy diplomacy. As Moscow's relations with the West deteriorate, Putin seeks to show the world and the Russian people that he has alternative friends to the East. Be that as it may, the incentives leading to the mega deal were in place much earlier. This paper proposes a framework for assessing the deal along three dimensions: 1) gas trade and energy security implications; 2) regional- and global policy-related implications; and 3) prospects for the future.

Evaluating the deal along all three dimensions, I conclude that Russia and China will continue to move toward greater energy trade integration. Finally, I propose to examine five special conditions under which this trajectory could abruptly change. But in the absence of such radical changes, a reasonable deduction about the China-Russia energy relationship in the near-term future is that it will consist of broadened mutual trade. Indeed, despite all the talk of an emerging Sino-Russian grand political alliance, the only thing we can be confident of is a growing economic and energy relationship.

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1. Introduction

On May 21, 2014, during a state visit by President Vladimir Putin in Beijing, China and Russia signed an eleventh-hour agreement for China to import natural gas from Russia's Gazprom. The agreement consisted of a 30-year, \$400 billion gas deal¹ for the delivery of 38 billion cubic meters of natural gas to China starting in 2018. The breakthrough was immediately interpreted as a powerful sign of Russia's ability to reduce its reliance on Europe, the largest importer of Russian gas. The long-running discussions over the gas deal have involved the price, the pipeline route, and Chinese stakes in Russian projects. Finally, more than 50 different documents were signed, with President Putin describing the deal as the biggest in the history of Russia's gas industry. Russian foreign policy and security expert Andrei Kokoshin has stated: "China and Russia are moving towards a tighter alliance, one that is no longer only declaratory but is acquiring truly strategic depth."²

Geopolitical considerations have certainly played a key role in Moscow's energetic turn to China. However, its implications should not be overstated. The opening of the Chinese gas market does diversify the Russian gas trade away from Europe, thereby granting Russia some symbolic leverage vis-à-vis its Western partners, but it does not replace the significance of Europe's gas market, nor does it alleviate the desperate need for reform in Russia's energy sector.³ Yet even considering that the Russia-China annual trade today (\$90 billion) is only a fraction of Russia-EU annual trade (\$410 billion in 2013), and that it barely registers compared to China's trade with America and Europe, the prospects for these two countries' mutual trade are positive, while their respective relations with the West are not.⁴ In fact on a symbolic level, the deal provides a chance to reaffirm the China-Russia strategic alliance against the United States, their shared global rival.

The resolve with which Russia has turned to China to cement this deal that had been stalled for more than a decade demonstrates the substantial impact of events in Ukraine on Russia's global outlook. Yet despite new geopolitical factors contributing to the likelihood of a breakthrough, the successful outcome in May 2014 requires a scrutiny of the substance beneath the current sour rhetoric, which is marked by Russia-US tensions. Powerful drivers to bridge the price gap and make the deal happen in May 2014, I contend,⁵ were already in place long before the Ukraine crisis. This is true mostly because Russia was in trouble even before the crisis.

¹ According to comments in Russian media by Gazprom chief executive Alexei Miller.

² Andrei Kokoshin, in discussion with the author, May 2014, Moscow.

³ No single energy giant is currently so much stronger than the others that it could push in its own direction. Gazprom is resisting reform. Under current circumstances, the Russian government does not have sufficient incentive to encourage any changes. It rather acts as an arbiter on the top, channeling and balancing the different interest groups.

⁴ Whereas this assertion is definitely more accurate for Russia, China is also trying to enhance its trade within the BRICS architecture and limit the dominance of the dollar in the global financial system. As counterweights to Western-led financial institutions, China led the establishment of the Shanghai-based development bank and a reserve fund in July 2014. China has also set up an Asian Infrastructure Investment Bank to rival the Asian Development Bank.

⁵ Skalamera, Morena, "Booming Synergies in Sino-Russian Natural Gas Partnership" (White Paper, Belfer Center for Science and International Affairs, Harvard Kennedy School, May 2014).

2. Why the time was ripe for Russia

For Russia, the new reality is the country's increased isolation from the United States and Europe in the wake of its annexation of Crimea and the resulting Western sanctions. Yet a number of important factors were driving Moscow away from its Eurocentric orientation even prior to these developments:

1. ***The Great Recession in Europe*** portends a decline in the EU's global influence. By contrast, the Asian Pacific countries have maintained high growth rates and account for a steadily increasing share of global GDP.
2. ***Demand for hydrocarbons***—Russia has been losing the race for a sizeable niche on the global gas market because of the shale revolution in the United States, gas trade liberalization in Europe, and the emergence of new producers of liquefied natural gas. Russia's chief source of international economic leverage—the European energy market—is stagnant or declining, while demand for energy in China and Asia more broadly will constitute the bulk of the world's demand growth for energy until 2040.⁶ Therefore, Russia regards tapping into the Chinese market and creating an Asian outlet for its gas as essential to its plans to diversify its exports away from Europe. For Putin, the greatest concern might be the negative impact on state revenue. The energy sector currently accounts for approximately two-thirds of Russia's export earnings, around 30 percent of Russia's GDP, and more than half of the federal budget revenues. The EU gas export shares are likely to remain stable in the next few years, however revenues from the EU market will fall fast due to the wave of renegotiations that will introduce more 'spot' elements and in some cases negotiate the end of the take-or-pay clause in Gazprom's long-term oil-indexed contracts with its European customers.⁷ That may force the Kremlin to reconsider its energy policies by focusing more on the East. Nevertheless, Europe will remain Gazprom's most lucrative market for the foreseeable future.⁸
3. ***The US "pivot" or rebalancing toward Asia*** heightens the importance of the region for Moscow in view of China's rise, tensions in the South China Sea and on the Korean peninsula, and the consequent need to pay greater attention to security issues in the Asia Pacific region.⁹
4. ***The Russian "Go East" Strategy***: The Sino-Russian deal will also help justify the geo-economics of Vladivostok LNG (liquefied natural gas) and the geostrategic goal of developing the Russian Far East. In 2011, Gazprom completed the Sakhalin-Khabarovsk-Vladivostok gas pipeline transporting Sakhalin's gas all the way to Vladivostok on the Pacific Coast. In

⁶ World Energy Outlook 2013, IEA, November 2013.

⁷ These two contract clauses would be replaced by indexation on spot gas prices on the hubs and potentially highly variable yearly purchase volumes. For a detailed discussion see: Abdelal R., Maugeri L. and Tarontsi S. "Europe, Russia, and the Age of Gas Revolution," HBS Case, October 7, 2014.

⁸ Even once the Sino-Russian gas pipeline is constructed, Russia will still achieve a higher netback by sending gas to Europe, and Russia will remain a major source for Europe's imports under every scenario.

⁹ There is a desire to tap into the technology of the Asia Pacific region in order to promote Russia's modernization and encourage investment from the region into the Russian Far East and throughout the country. Russian leaders perceive opportunities for regional collaboration in developing nuclear power, promoting agriculture and agro-businesses, expanding space exploration, and improving the Far East's transportation infrastructure. For a detailed discussion see: C. E. Ziegler, "Russia, China, and the Geopolitics of the Russian Far East" (ISA Working Paper, March 2014).

October 2012, Putin decided that Gazprom should develop the giant virgin Chayadinsk field in Yakutia in eastern Siberia, building another pipeline, the Power of Siberia, to Vladivostok and an LNG plant there for export to China. Yet the most economically viable LNG project is the Sakhalin 2 extension scheme, followed by Sakhalin 1, developed by Rosneft and Exxon Mobil. Vladivostok LNG production would be too expensive to ever be profitable. This is as white an elephant as there ever was. Yet since Putin already completed the 30-bcm pipeline from Sakhalin to Vladivostok, it would be difficult to go back now. Gazprom will also build the 61-bcm, 3,200-kilometer-long Yakutia-Khabarovsk-Vladivostok pipeline. Officially, this project is supposed to be completed by 2017 and cost \$55 billion (including the pipeline and the exploration in Kovykhta and Chayandinskoye), but Sberbank analysts assessed it at \$65 billion. In sum, Putin has put a strong geostrategic emphasis on developing Gazprom's Eastern Gas Program partly as a way to boost Russian influence in the Pacific region and also as a catalyst for the socio-economic development of the Russian Far East and East Siberia. The development of the Eastern regions of Russia is particularly significant because of the worsening demographic situation and the unfounded but existent fears of losing control over the region due to Chinese immigration.¹⁰

5. Finally, Russia's "special path": This idea has been prevalent recently in Moscow's circles of the so-called Eurasianist school of thought, which puts an emphasis on Russia's geostrategic uniqueness.¹¹ Whereas in the past, Western views have predominated, today the Russian Far East, together with Siberia, provide Russia with the opportunity to claim an identity as both European and Asian, or as neither. The recent fallout with the West only strengthens this trend.

As a recent Valdai Discussion Club report observed,

"Russia . . . is being held back by the backwardness of its infrastructure, an underdeveloped economy, and the demographic situation, but even more so by its obsolete Eurocentric foreign trade and economic mentality" (2012: 4). In the past, Russia's huge territory was needed as a buffer against enemies; now it can serve as "a vital source of new competitiveness" (2012: 6).¹²

To achieve these goals, Moscow prioritizes integration with Japan, South Korea, Singapore, Vietnam, and regional institutions, namely APEC and the ASEAN Regional Forum. But more than anything else Moscow's quest to look East means one thing: a pivot to China.

¹⁰ The idea that the Chinese would find any benefit in moving their population into these very remote and cold areas of Russia is groundless. Inside China they are already moving away from such areas to the coast, which is the most developed part of China. To the extent that the Chinese actually do move to Russia (and there are far fewer of them than these doomsters' scenarios show), they go to the cities where they can trade with people. So the more people there are in an area, the more likely it is that the Chinese will be attracted there. That said, it is hard to determine whether people who raise that argument are unconsciously naïve, or whether it is consciously used to some extent by local governors to argue for the political program of investing more in Siberia in order to compete for more rents and resources.

¹¹ The main principles of the "special path" concept are that Russia does not need to follow Western foreign policy as it did in the early years of Yeltsin's presidency; that Moscow needs to develop new foreign policy toward West and East, based on its national interests; and that the East is the source of cooperation in economic, military, political, and cultural spheres. This cooperation opens new perspectives for Russia to have influence not only in the region but also in the whole world.

¹² S. Karaganov, et al., "Toward the Great Ocean, or the New Globalization of Russia" (Valdai Discussion Club Analytical Report, July 2012).

3. Why the time was ripe for China

For China, the main driver had been air pollution largely driven by coal-fired power plants, which reached new heights in 2013 because of the unprecedented level of smog. Responding to public demands, China's government has strongly supported an expansion in the use of natural gas, a substantially greener fuel source. Indeed, official estimates about China's gas demand are continuously revised upward: the country's total gas demand for 2030 is estimated at 580–750 bcm,¹³ including 280–330 bcm of imports.¹⁴ All of this means that Russian gas will become indispensable to fill the widening gap between China's natural gas supply and demand. Aware that demand for gas will be soaring in the foreseeable future, the Chinese leadership has taken steps to introduce the long-awaited reform of natural gas pricing. The reform began in 2013 and Chinese gas producers expect further increases in gas prices on the domestic market. This change in the gas-pricing mechanism is crucial because it will stimulate domestic gas production and increase imports from abroad, making Russian gas more desirable for giants such as CNPC and Sinopec. Moreover, as noted by specialist Keun Paik,¹⁵ CNOOC (China National Offshore Oil Corp) together with SINOPEC (China Petrochemical Corp), which have struggled to secure less expensive LNG supply sources, will be the indirect beneficiaries given that the deal will put downward pressure on LNG prices in the Asia-Pacific region. Therefore, it was in these two behemoths' best interest to lobby for a successful conclusion of the deal. On the flip side, the deal signals to potential LNG developers that they will have to lower their price expectations—at least for China-bound cargoes.

True, quickly expanding Asian economies with rising energy needs will emerge as a key driver for demand growth in the global LNG market over the next few years, with China accounting for the bulk of the increase. But LNG demand growth in Asia also comes at a time when producers—in North America, East Africa, or Canada—cast their eyes on potential markets in the region. Moreover, China is trying to decrease its reliance on LNG and boost the presence of piped gas in its energy mix. For example, just before the inauguration of the 12-bcm Myanmar-China gas pipeline, China's gas portfolio was almost equally split between the 24.4 bcm of piped gas it was getting from Turkmenistan and a 24.5 bcm of LNG, mainly from Qatar, Australia, Indonesia, and Malaysia.¹⁶ Yet with the Sino-Russian gas deal, the inauguration on June 15, 2014 of the third line of the gas pipeline from Turkmenistan,¹⁷ and a smaller pipeline from Myanmar as well, China is decisively opting for more piped gas, thereby attempting to decrease its residual LNG demand. LNG is not only more expensive than piped gas, but its shipment relies on lines of communication that are still primarily controlled by the United States. The Chinese leaders have long emphasized avoiding excessive reliance on the instable regions of the Middle East, East Africa, and the Strait of Malacca, which is surrounded by Indonesia, Malaysia, and Singapore,

¹³ bcm = billion cubic meters

¹⁴ Source: CNPC, August 2014. Any such estimate inevitably carries a degree of uncertainty, but the clear trajectory is in the direction of a booming gas demand.

¹⁵ Keun Paik, *Sino-Russian Oil and Gas Cooperation - The reality and Implications* (Oxford, UK: The Oxford Institute for Energy Studies, 2012) p. 362-368.

¹⁶ In 2013, gas made up 5.1% of China's energy mix. Total consumption was 161.6 bcm and domestic production accounted for 117.1 bcm. Therefore, there was a deficit of 49.1 bcm, half of which was supplied via pipeline, and the other half by LNG. Source: CNPC.

¹⁷ Which is expected to reach the designed throughput of 25 bcm per annum in December 2015.

America's closest Asian allies. To that end, the above-mentioned Sino-Burmese gas pipeline became operational in July 2014, opening another strategic inland gas corridor for China. Keeping in mind China's aspirations to reduce LNG demand, if Japan resumes using nuclear energy, then overall LNG import demand in Asia will decrease, in turn pushing down the LNG price in the region. Currently, natural gas makes up 24% of Japan's energy mix, more than 95% of which is met by LNG imports. However, Japan's current government is poised to resume using nuclear energy with necessary safety measures. In September 2014, two reactors cleared the first safety hurdle to resume operations since all of Japan's nuclear plants were shut down,¹⁸ signaling that Japan's appetite for LNG could progressively decline as new energy supplies become available. According to Shigeru Muraki, executive vice president of Tokyo Gas, Japan could see its imports drop 25 million t/y, if it successfully restarts its nuclear power plants.¹⁹

4. Gas Trade and Energy Security Implications: Who Gets What?

There is considerable debate over the actual terms of the contract, which have not yet been disclosed. Many observers have speculated whether the Russians have promised the Chinese a stake in gas production or transportation projects, whether the basic price of gas under the contract is below its costs, or whether the Russians have pledged future gas deliveries against a huge loan. Although details are yet to be disclosed, it is highly likely that the deal offered more favorable pricing to China, given that this has been the main sticking point historically. Russia originally wanted China to pay the same price as Europe for gas, at \$380.50 per thousand cubic meters. China refused. Since discussions began with Russia, China has found alternative partners, most notably Turkmenistan. They supply China with gas at around \$350 per thousand cubic meters. As discussions went on, time began to run out for Russia. It is likely that the deal involved concessions to China, particularly considering that over the last ten years, China has strengthened its position in the gas market. China has funded and built a pipeline system supplying itself with gas from Turkmenistan via Uzbekistan and Kazakhstan. LNG projects due to come online in Australia, as well as the prospect of LNG exports from the United States and Canada, give Beijing additional options. And for the long term, China is beginning to explore its own shale gas resources. China now possesses greater leverage due not only to a reduced exclusivity of Russia's energy offering, but also to the latter's damaged international reputation after its actions over Ukraine. That being said, the secrecy surrounding a variety of issues that were on the negotiating table makes the impact of the deal unclear.

Although the discussions were unlikely on equal terms, the deal was presented officially in Russia as an absolute victory. In the short-term, the main benefits of the agreement are political. However, Russian energy analysts are divided into two camps, the first of which see it as a great win, and in the second camp, quite to the contrary, those claiming that such a project may be a heavy burden for Russia's future generations.

¹⁸ <http://www.dw.de/japans-nra-nuclear-authority-approves-two-reactor-restarts/a-17911570>

¹⁹ Source: Petroleum Economist and <http://www.petroleum-economist.com/default.asp>

In the view of an influential Russian energy expert:

“I don’t see it as something we desperately needed. We already have a huge deal in oil. Also, we have a huge refinery success. Then, there is the Vladivostok petrochemical plant. Probably this deal will be enlarged and will result in something geo-strategically and commercially much bigger. There is a huge gap between what Russia trades with the EU and the size of its trade with China, and that gap should be bridged.”²⁰

While the estimated price of \$350 per 1,000 cubic meters is not as good as CNPC had expected, it is significantly lower than the \$380 per 1,000 cubic meters, which Gazprom originally demanded. Therefore, it can be claimed that China got a good deal.²¹

This is how Tatiana Mitrova, Head of the Energy Institute of the Russian Academy of Sciences, sums up the deal’s implications:

“In total (with the Russian new supplies) China has secured 110 bcm of gas at the price of \$10/mmBtu²² on the Chinese border. That achievement increases China’s contractual leverage on future LNG and pipeline supplies (i.e. Altai), which is also a crucial consideration for Russia.²³ LNG will cost around \$14–\$12/mmBtu as compared to the \$10/mmBtu that the Chinese secured with this deal. In any case, China needs more gas. China and Russia have signed more than 50 deals—part of it is the oil refinery in Tianjin, which has been on the table since 2010. Also, trade in missile supplies and military ships were agreed.”²⁴

On equity, the Russian side is once again split between the majority arguing that equity was not included in the deal and a limited number of analysts arguing that equity was not only included, but that the number of Chinese equity stakes in Russia will rapidly grow. Of the former, a Gazprom executive claims: “Equity was not mentioned but there will be a prepayment for Russian gas.”

Another Gazprom executive puts it this way:²⁵ “It is our investment. Why to share? The Chinese may participate with the financing of the Power of Siberia pipeline. Indeed, Igor Sechin lobbied heavily to involve the Chinese and also to make Rosneft part of our Eastern Programme. Potentially we may agree on a formula where they sell us their gas and then we resell it to China. We are not talking about real liberalization but rather on project-by-project agreements.²⁶ And yes, Rosneft will lobby for the liberalization of pipeline gas exports. On the other hand, it is not in the

²⁰ Interview with the author, May 2014, Moscow. This interview was conducted in confidentiality, and the name of interviewee is withheld by mutual agreement.

²¹ However, many details of the agreement may remain too opaque to make a reasonable assessment of its economics. Also, at this stage it is hard to be fully clear on the strategic implications that the deal will entail.

²² mmBtu = one million British thermal units (BTU)

²³ China has secured 110 bcm at \$10/mmBtu, if we count both Russia’s future supplies and the supplies from Turkmenistan. This gives CNPC more leverage to request a similar (or lower) price for the Altai pipeline and given that it has recently secured all this piped gas, it can bargain harder to assure convenient LNG prices.

²⁴ Tatiana Mitrova, interview with the author, May 2014, Moscow.

²⁵ Interview with the author, May 2014, Moscow. This interview was conducted in confidentiality, and the name of interviewee is withheld by mutual agreement.

²⁶ The assumption here seems to be that Rosneft will try to gain access to the Power of Siberia exports. The price that Gazprom will charge Rosneft for its gas will be partly internal (the domestic subsidized market price) and partly external (i.e. partly an export netback price).

government's interest to have real competition – it decreases the final price.”²⁷

In Moscow, observers emphatically point out that with the final price set at about \$350 per thousand cubic meters (roughly comparable to the price Gazprom charges its European customers), Russia has achieved a great success. Therefore, the image of Russia as a “raw materials appendage” to a predatory Chinese economy is misleading. Moreover, Russian experts eagerly note that with an annual production of almost 700 bcm, the 38 bcm that Russia will deliver to China account for a negligible 5% of Russia's annual production. Therefore, the hype about Russia having become China's energy appendage should be silenced. But the annual production figure is misleading in that it tells very little about the actual revenues that Gazprom is able to seize from these huge volumes. It is important to note that due to a heavily subsidized domestic market in which Russian gas prices are kept well below European levels, Gazprom is essentially forced to make profit in export markets. According to Gazprom's own estimates, Europe accounts for some one-third of its total supply volume and brings in more than half of the company's revenues. Yet to make up for the diminishing returns in Europe, which is no longer as lucrative as it used to be,²⁸ Russia is frantically pivoting to the East, where the main target is China. Thus, considering this reality and the toughening of Western sanctions, Russia is essentially running the risk of becoming a natural resource appendage to China.

Although the terms of the deal reflect Russia's current vulnerability, the Russians take great pains to highlight that the pact is a great success for both sides. In the words of a Russian energy economist:

“The Chinese got a great price! The gas that China gets from Turkmenistan risks to get even more expensive than our gas if you count the 4000 km from the Turkmen border to China's Western border, while the Russian pipeline reaches directly the region of consumption. Yet, admittedly, for Russia this is more of a geopolitical success than a commercial success²⁹—for us the most lucrative market is and will remain Europe, while here we still need to invest in upstream and build the pipeline, for a lower price!”

On the other side of the spectrum, pessimists and critics note that China has acquired great geopolitical leverage as the sole buyer at the other end of the pipeline.³⁰ For instance, Mikhail Krutikhin has repeatedly called the deal opportunistic.³¹ He argues that Russia simply needed to close the deal, especially in view of Moscow's worsening relations with the West. On the other hand, China can comfortably build pipelines with Russia because the latter doesn't have the po-

²⁷ Interview with the author, May 2014, Moscow. This interview was conducted in confidentiality, and the name of interviewee is withheld by mutual agreement.

²⁸ Many European firms are renegotiating gas contracts with Gazprom, trying to put an end to oil-indexation and take-or-pay clauses, which decreases profits for Russia. But in comparison with the Chinese market, Europe will still remain the most lucrative outlet for Gazprom's gas.

²⁹ Many energy analysts in Russia point out that there is no way that the deal is commercial for Gazprom. The consensus is that the rate of return on this pipeline will be low or negative. The state can then intervene—in the government's most optimistic estimate, this project will cost around \$55 billion (including the pipeline and exploration in Kovykhta and Chayandinskoye).

³⁰ Among them, perhaps the most vocal have been Vladimir Milov and Mikhail Krutikhin, both of whom are renowned Russian energy analysts.

³¹ See for example: Mikhail Krutikhin, “A Mystery, Wrapped in a Puzzle” *Eurasia Outlook* (Carnegie Moscow Center, May 23, 2014).

litical ability to use oil and gas to undermine Chinese security the way it can in Europe. While in Europe, Russia gains political influence by selling its gas, it will not get any political leverage by selling gas to China because the Chinese will dominate this relationship due to their economic, political and military prowess. That is why China's deal with Russia shows its continued faith in building pipelines both in Russia and through the restive autonomous province of Xinjiang to Turkmenistan, Kazakhstan, and Uzbekistan, despite the geopolitical insecurities inherent within these fixed infrastructures that make many smaller European countries uneasy.³²

Finally, as noted earlier, the natural gas supply agreement is the third time in the past decade (after 2005 and 2009, when the China Development Bank extended oil-backed loans) that the Russians have brokered a multi-billion dollar energy deal with the Chinese in a time of need.³³

Even as the Sino-Russian gas deal seems to play into China's hands, Beijing is likely to continue to proceed with caution. On the one hand, China is eager to exploit Russia's heightened tensions with the West for its own benefit. It can offer financing, larger shares of its energy market, and even technology,³⁴ especially after tougher and more coordinated sanctions were imposed in August 2014 on the transfer of Western goods and technology to Russia's oil and gas industry.³⁵ China knows, however, that Western companies have a technological edge over its NOCs and that it cannot fully replace the West as a source of high technology for Russia's energy industry. Therefore, Beijing worries about the embargo on Western technology, which will limit Russia's ability to exploit new and hard-to-reach fields in the Arctic and the "greenfields"³⁶ in Eastern Siberia, which will supply the pipeline to China.

In public, official Chinese statements point out that energy cooperation between China and Russia has brought tangible benefits to both countries and is expected to yield further positive results. On August 29, Li Hui, China's ambassador to Russia, emphasized that energy cooperation is indeed a crucial part of bilateral practical cooperation and that it testifies to the high-level China-Russia comprehensive strategic partnership. Then he added, "In general, energy cooperation is in good condition, ... but problems do exist. The main problem is that both sides have limited direct investment in the energy sector, which is incompatible with the scale of bilateral trade."³⁷

In practice, however, the cooperation is more complex. In an unusually candid expression of concern over the possible implications of the Ukrainian crisis, a Chinese official involved in the negotiations signals that there is more to the story:

"The Western sanctions put a question mark over a smooth implementation of the existing agreements. We are not only talking about the gas deal, but the promised increases in oil, Yamal LNG,

³² Just as China invests more in pipelines, countries like Lithuania (100 percent reliant on Russian gas imports) are seeking to move away from them and instead build LNG import terminals such as Klaipėda on the Baltic Sea. No one has military power in Europe—yet in the Far East, the Chinese have strong military capabilities.

³³ Skalamera, "Booming Synergies."

³⁴ As reported by the Wall Street Journal, chief among the potential Asian benefactors could be China's Honghua Group Ltd, one of the world's largest builders of onshore drilling rigs, which gets around 12% of its total revenue from Russia.

³⁵ This has been especially detrimental to exploration in deep water and the Arctic and to shale development.

³⁶ I.e., discovered but undeveloped international oil and gas fields.

³⁷ These statements were made by Li to the Xinhua News Agency ahead of Vice-Premier Zhang Gaoli's visit to Russia. See: Xinhua, "Sino-Russian energy deals benefit all," August 29, 2014, China Daily

and the Tianjin refinery. The deterioration of the overall investment environment in Russia means that there is a lot of uncertainty surrounding these deals.”³⁸

4.1 The Altai Route Proposal: Putin’s Pet Project?

With so much attention focused on Russia’s “Go East” strategy, the Kremlin has been especially keen on promoting the (temporarily) shelved Altai route from Western Siberia to China. It looks like Putin has always favored this so-called western route because it requires less investment, would allow Gazprom to supply Europe and Asia from the same gas fields, and would entail building infrastructure connecting West Siberia to East Siberia, Putin’s long-term strategic priority.

Leading experts have devoted much attention to addressing this issue (Paik, 2014; Mitrova, 2014). For example, Keun Paik³⁹ argues that in the long term, Putin aims to carve out a bigger market share from the Asian market, which is currently being targeted by LNG suppliers from the United States and Canada.

Although real prospects for pipeline gas liberalization in Russia are still unlikely, independent producers (like Rosneft) lobby to increase gas supplies to China. In the current (i.e. Power of Siberia) arrangement, Gazprom will most likely be buying Rosneft’s gas, which will then resell further to China. The question is: at which price will Gazprom buy gas from these independents? Aside from that question, there is a general movement in the direction of liberalization—with Sechin and Timchenko pushing for changes in the legislation and Putin acting as an arbiter among the big players. Rosneft wants to make sure that the capacity of the gas pipeline to the East takes into account its own interests as well. In this environment, the Kremlin may find it tempting to revive the idea of the so-called Altai (or “western”) route, which would potentially give other “independents” more room to maneuver. Moreover, that way Russia would become a “swing supplier,” able to supply either Europe or Asia.⁴⁰ According to Paik, if Putin gets his way, Russia’s eastern energy pivot is only just beginning. Once the 22 bcm/y pipeline gas—using the much-touted Power of Siberia line—is supplied to Vladivostok LNG, the solid ground for a larger 60 bcm/y pipeline gas export to China and the Asian market will be laid. In other words, once the infrastructure of the recent deal is in place, sunk costs will make many other options feasible.

Other observers, myself included, until recently gave more sober assessments. While China is going to need a lot more piped gas, at the moment, China simply may not need this additional pipeline. It has just secured 38 bcm of Russian gas for the next 30 years, meaning that Gazprom would have to make an extremely attractive offer for this additional deal to happen. Moreover, the fear of diverting Russia’s supplies away from Europe is often exaggerated, since even when

³⁸ Interview with the author, Beijing, September 2014. This interview was conducted in confidentiality, and the name of interviewee is withheld by mutual agreement.

³⁹ Keun Paik, “With China Deal, Russia Stands at Centre of Energy Geopolitics” (Chatham House Comment, May 23, 2014).

⁴⁰ Implied here is that this would give Russia greater market power and enable it to play two big customers against each other.

one sums up the optimum target capacity of the Power of Siberia pipeline, the Altai route, and LNG, Russia's supply to China will still be lower and less lucrative compared to its exports to Europe. Tatiana Mitrova notes that bringing the Altai project to fruition still requires significant Russian investment. "It might be less capital-intensive than the eastern one, but it is no doubt going to cost us tens of billions of dollars," she says. "Unlike the eastern route, the Altai pipeline will hit the Chinese border in the middle of nowhere, far from gas-consuming regions. The north-west part of China simply consumes less gas, and 65 bcm of gas are already supplied to this area from Central Asia. That means Russia may have to compromise even more to secure a second deal. But Gazprom needs recapitalization in order to deliver on the first deal, so where Russia will find more billions for this second deal, is unclear."

Yet the Ukraine crisis is a real game-changer given that Russia is more desperate than ever. On October 12, 2014 the Chinese delegation headed by Premier Li Keqiang flew to Moscow for a three-day visit to sign over fifty agreements in a variety of fields, including energy and finance. On that occasion, Russia's Prime Minister, Dmitry Medvedev, stated that he hoped to reach an agreement with China on gas supplies via the "western route" next year, in addition to the already clinched deal to supply gas via the "eastern route."⁴¹ Left with fewer friends and less capital due to, as the Chinese say, the "Crimean incident,"⁴² the Russians may be forced to concede even more on the price for the Altai route. Therefore, it is actually plausible to expect a breakthrough on the western route next year. The memorandum of understanding (MoU) that was signed on the Altai route upon Putin's visit to China on November 09, 2014, underscores this point. The route would supply 30 bcm of gas a year to China, which added to the 38 bcm of the Power of Siberia pipeline, would make China the biggest consumer of Russian gas.⁴³ It should be noted, however, that while China may become the single biggest consumer of Russian gas, these volumes wouldn't approximate the size of Europe's overall imports from Russia. Besides the main deal on the supply of gas via the "western route," nearly twenty other agreements were concluded.⁴⁴ In any case, a handful of such pompous agreements were announced before the clinching of the May deal on the "eastern route," and the actual deal occurred only when the economics on both sides looked good. Aside from speculations on whether the Altai pipeline will be built or not, the overall effect is that Russia gains somewhat of an upper hand in pipeline politics over Europe, simply by forging cooperation with an alternative gas partner.

⁴¹ Russia hopes to reach second gas deal with China next year: PM Medvedev, October 13, 2014. Reuters. <http://www.reuters.com/article/2014/10/13/us-russia-china-gas-idUSKCN0I20Z420141013>

⁴² China has confirmed its long-standing support for noninterference, but it has turned a blind eye on its equally championed principle of sovereignty, by which it seemed to be upholding double standards.

⁴³ China is already on track to become Russia's biggest crude oil export market within a few years after Rosneft agreed to more than double shipments in exchange for loans, in October of 2013.

⁴⁴ A framework agreement between Gazprom and CNPC on natural gas supplies from Russia to China, and an MoU between Gazprom and CNOOC, were signed. In addition, Rosneft and CNOOC signed framework agreements for China National Oil and Gas Exploration and Development to take a 10 percent stake in Russia's Vancorneft, agreements were signed for cooperation between Sberbank and the Chinese Export Credit Corp, and also between the territorial generation company No 2. and the company «Huadian» for the investment in energy projects in the Arkhangelsk region. See: <http://izvestia.ru/news/579158>.

5. Regional and Global Policy Implications

The 30-year, \$400 billion gas deal signed during President Vladimir Putin's May visit to China will change more than just energy flows.

5.1 Implications for the United States

The unconventional revolution in the United States has prompted policy makers on both sides on the Atlantic to envision potential US LNG exports as the help that would rescue Europe from Russia's energy stranglehold. Advocates of increased LNG exports argue that allowing for US LNG exports will benefit American companies, boost the American manufacturing industry, and help American allies overseas. All of that is at least potentially true. But there are signals that even prior to the Russo-Chinese gas deal, natural gas advocates were overstating the potential Chinese market. And with China securing 38 bcm of gas from Russia, increasing the capacity of pipelines across Central Asia, and quickly developing its own unconventional gas, the window of opportunity for US exports is waning fast. The United States has been slow in building export capacity. Since 2011, only nine licenses have been approved, six conditionally.⁴⁵ American companies' profits in international gas markets will depend largely on the gap between the cost of producing natural gas in America and the prices that countries in the Asia-Pacific region are accustomed to pay. But as noted by Martin, that spread shrinks rapidly once gas is liquefied and shipped, via tanker, overseas.⁴⁶

China's deal with Russia is likely to put downward pressure on LNG prices in East Asia, where they are generally the highest in the world. By agreeing on 38 bcm of piped gas annually from Russia, China has heated up competition in the international LNG markets. There are increasing signs that LNG prices in East Asia will erode in the near future as a result of rising Asia-Pacific LNG production, Japan's decreasing demand, and the region's diversification of gas supplies. That in turn means that countries like Japan and South Korea, which are also interested in American LNG, might not have to pay as high prices. This could negatively impact Canadian and US gas producers, which are eager to capitalize on high Asian gas prices by exporting their surplus gas.⁴⁷

Finally, closer Sino-Russian ties are likely to have negative implications for US foreign policy. After Putin's seizure of Crimea, we entered a new era in the US-Russia-China triangular relationship. Whereas during the Cold War, the United States capitalized on the Sino-Soviet ideological split, today Beijing is the power that can reap the real benefits of the renewed strain. With Washington and Moscow caught in a downward spiral of tensions, China can play one side off the other while developing relations with all sides on its own terms. The August 2014 escalation of Western sanctions only adds to Putin's reasons for turning to China both for political and eco-

⁴⁵ Long Term Applications Received by DOE/FE to Export Domestically Produced LNG from the Lower 48 States (as of September 10, 2014). See: <http://energy.gov/sites/prod/files/2014/09/f18/Summary%20of%20LNG%20Export%20Applications.pdf>

⁴⁶ Martin, R. "Russia-China Gas Deal Narrows Window for U.S. Export", See: <http://www.forbes.com/sites/pikere-search/2014/05/30/russia-china-gas-deal-narrows-window-for-u-s-exports/>

⁴⁷ For a more detailed analysis, see Bennett, B. "China-Russia gas creates Arctic winners and losers," *Cryopolitics, Arctic News & Analysis*, June 25, 2014.

conomic support. The Ukraine crisis also means that US President Barack Obama is almost inevitably going to have less time to devote to his “pivot to Asia,” which also quietly but surely plays into China’s hands.

5.2 Implications for Europe

The deal, mixed with concerns over the Ukraine crisis, has intensified the need for European countries to diversify their gas imports away from Russia. It is important to note, though, that China will not replace Europe, given that Russia relies heavily on the highly priced volumes of gas it sells to Europe. The deal will, however, push Europe to identify alternative gas sources. The Ukraine crisis had added to the strain, with both the EU and Russia increasingly looking to diversify. Keun Paik notes that aside from the gas supply from east Siberia, a total of 40 bcm/y of gas supply from the Sakhalin Islands (including 15-16 bcm/y from Sakhalin 2 LNG) will be ready by the first half of the 2020s. If the Altai gas export to western China (30 bcm/y) is added, the total volume Russia can export to Asia via China ultimately will be as much as 130 bcm/y. These are potentially great volumes considering that Gazprom’s export to the European market in 2013 totaled 162 billion cubic meters. However, the escalated sanctions put a question mark over Russia’s ability to deliver these additional Eastern projects, whereas delivery to Europe rests on existing pipelines and gas fields. In summary, despite the deal with China, Russia will continue to need the European market. The 38 bcm it plans to export to China is still small compared to the 161.5 bcm Russia sent to Europe in 2013. Likewise, the apprehension on the part of the EU over Russia’s willingness and ability to play the so-called “energy weapon” is the result of two great exaggerations. The first exaggeration is to overstate Russia’s interest in cutting off supply to Europe in order to achieve supposed geopolitical goals. Russia is more dependent on Europe than Europe is on Russia, and Russia’s vulnerability increases in pace with its break-even price for oil, which in 2014 reached \$114/barrel. Since 82% of Russia’s export earnings come from hydrocarbons, the country would incur huge costs by cutting supplies to Europe where it sells most of its output. On the other hand, most of the EU countries are now much better prepared for potential “supply shocks” thanks to greater diversification, new interconnectors, reverse flows, and enhanced storage. The second exaggeration is to greatly overestimate the extent to which the EU can redress the problem of gas interdependence with Russia through foreign policy measures. From the perspective of Europe, there is no single alternative that could fully displace Russia’s supply volumes or match its price. Therefore, producing renewables domestically and partially diversifying gas supplies are both good ideas, but it also makes sense to acknowledge that Europe is unlikely to become completely free from Russian gas in the near future.

5.3 Implications for Asia and China

In sum, it looks like China and the gas consumers in the Asian-Pacific region are the winners of this deal. Russia has to settle for accepting a relatively low price for its gas—it is likely that China received some concession on price, given that this was the major sticking point ever since the negotiations began. North American companies will have to accept lower revenues if they ever manage to build the pipelines and LNG terminals necessary to export their excess gas resources across the Pacific. Yet in terms of both grand strategy and tactics, the showdown in Ukraine has played into China's hands: it is distracting Obama from his "pivot to Asia" and it is weakening Putin in Central Asia. Unsurprisingly, on a crisis that is indirectly strengthening its international influence, China has occupied a reserved, neutral position.

6. The Sino-Russian Political Alliance: A Myth

Right after the clinching of the Sino-Russian gas deal, some commentators went so far as to speculate about a likely formation of a Sino-Russian bilateral military-political alliance in the style of the 1950s. I argue that such a Sino-Russian alliance is a myth. The reasons are obvious. Neither side is ready to restrict its national interests in its partner's favor or forego its sovereignty in key decision-making. True, China and Russia will continue to invoke multipolarity in the international system and to work in tandem trying to limit the dominance of the dollar in the global financial system. They will use the newly launched, Shanghai-based BRICS Development Bank to that end. Moreover, in September 2014 Russia took the presidency of the Shanghai Cooperation Organization, within which its main goal will be to strengthen collective security cooperation in Asia as a counterweight to US-led security architecture.

Nevertheless, China has high stakes in the US-Russia confrontation and it has already somewhat tarnished its international reputation by *de facto* supporting Putin's bravado in Ukraine. Therefore, as the Russia-West fallout unfolds, China will only play the Russia card in its own relationship with the West insofar as it serves its interests.

In fact, whereas in the short term the Russia-China partnership has provided both sides with strategic opportunities, over the long term, challenges and tensions appear. As China's influence grows, Russia could end up seeing Beijing as a rival as much as a partner. Putin's Crimea incursion is motivated by his desire to protect Russia's sphere of influence to its west, where it feels under threat from Europe. But he is also intent on maintaining Russian influence in Central Asia, where China is the long-term challenger. Over the last five years, Chinese presence in Central Asia has increased dramatically, the product of huge energy deals, extensive oil and gas pipelines, and financial support. In March 2014, China agreed to add a fourth branch to its pipeline system running through Tajikistan and Kyrgyzstan. Russia is weakly positioned to counter let alone prevent such Chinese influence in Central Asia. Yet an essential element of Russia's self-perception is its order-producing and managerial role in Eurasia. As noted by Herd,⁴⁸ this is the *sine qua non* of Russia's Great Power status, a posture vital to the idea and reality of Russia's

⁴⁸ P. G. Herd, "China, Russia and Eurasia: Neo-Tributary Relations and Geopolitical Realities?" (ISA Working Paper, Toronto, March 2014).

revival. On May 29, 2014, Putin launched his “Eurasian Union,” an initiative aimed at promoting Russia as the center of geo-political gravity in the former Soviet space despite a lack of visible economic benefits for Russia. Given these realities, we can hypothesize that China will seek to balance its needs for global cooperation with Russia with growing competitive tensions with Russia in Central Asia. Again, Herd⁴⁹ contends that in order not to irritate Russia, China will most likely not actively oppose or contradict face-saving Eurasia Union rhetoric emanating from Moscow designed to bolster power and prestige, nor the symbolic declaratory strategic signaling that Central Asian elites will exercise. Yet it is likely that as Russia isolates itself from the West, the calculus in Beijing will change.⁵⁰

More broadly, the ambiguity in Russian policies toward China is rooted in apprehension over China’s dynamism and fears of Russia being dragged into vassal status as China’s potential unfolds. This ambiguity is particularly evident in Russia’s energy policies. While acknowledging that foreign participation may be necessary, some Russian officials and observers are reluctant to link Russian Far East development too closely to China. This reasoning appears to have influenced Putin’s initial decision to construct the East Siberian Pacific Ocean Pipeline to Kozmino on the Pacific coast; that is, to avoid routing the entire throughput to China (a spur to Daqing was constructed following intense Chinese lobbying). Russia’s resource nationalists fear the country will be exploited if it operates simply as a raw materials appendage to China.⁵¹ For Russians thinking about the Russian Far East, China constitutes both an opportunity in the form of capital and labor for regional development, as well as a long-term threat demographically and politically. This sets up a tension between advocates of international cooperation and those wary of conceding too much sovereignty.

As Ziegler⁵² has noted, in traditional geopolitical terms, Russia is much like Canada—a large raw materials supplier dwarfed demographically and economically by a powerful neighbor. There is general unease in the country about the demographic imbalance between its own population of 142 million, and China with some 1.3 billion people. Russia also worries about Chinese migration into eastern Siberia and about Chinese naval intentions in the northern Pacific and Arctic region. Moreover, although a potential source of discord was eliminated in 2008 when the two neighbors signed an agreement delineating their 4300-kilometer border, this huge area is a constant source of mistrust.

There is one last challenge. Russia is not a significant player in the APEC economy, but recent decisions (starting in 2007) will integrate the Russian Far East and Russia more closely with the APEC economies. The current Russian leadership recognizes that the APEC market is more dynamic than Europe’s. Vladivostok is supposed to become the center for international cooperation.

⁴⁹ Ibid.

⁵⁰ In 2013, Chinese President Xi Jinping unveiled plans for two massive trade and infrastructure networks connecting East Asia with Europe: the New Silk Road (also known as the Silk Road Economic Belt) and the Maritime Silk Road. A little over a year later, these initiatives are rapidly evolving and enhancing China’s diplomatic clout, especially in Central Asia. Although China insists that these projects will not collide with Russia’s Eurasian Union, Beijing will naturally try to take advantage of its financial prowess to expand regional influence.

⁵¹ See, for instance: Pozdniakov, *Filosofia*; A.G. Dugin, *osnovy geopolitiki: geopoliticheskoe budushchee Rossii, Arktogeia* (Moscow, 1997); Dugin and A.A. Nartov, *Geopolitika* (Moscow, 1999).

⁵² C. E. Ziegler, “Russia, China, and the Geopolitics of the Russian Far East” (ISA Working Paper, March 2014).

Energy will be a priority.⁵³ In sum, Moscow is increasingly recognizing the importance of soft power in the *whole* Asia Pacific region.⁵⁴ In fact, even as Moscow and Beijing have been growing closer over the last two years, Russia has also been improving ties with Japan⁵⁵, Vietnam, Singapore, and South Korea.

In the words of a Russian civil servant:

“Cooperation with China is only part of our overarching pivot to Asia. First, investing in China does not mean that Russia will be committed to strong relations with China. Simultaneously economic and political cooperation with other South-East Asian countries will continue. Most of these countries are America’s allies and have troubled relations with China. Second, the Russia-China alliance does not mean that Russia will accept a subordinate position. Russia’s other steps will be centered on Vietnam, South Korea, and the broader Asia-Pacific region.”

Under such circumstances, Russia and China may indeed go for closer rapprochement,⁵⁶ but the shared imperative of the need for improved cooperation will be balanced on both sides by a political imperative of preserving traditional sovereignty and their respective national interests.

7. Looking Ahead: A Linear Pattern and Five Alternatives

Considering the events unfolding in Ukraine and absent some presently unlikely developments, the Sino-Russian energy relationship seems to be an important feature of the foreseeable future. For Russia, the deal was driven both by economic and, especially in the final phase, political needs. Under current circumstances, the alliance with China is politically vital for Moscow. Nevertheless, for economic reasons intimately tied to domestic stability, the gas deal was crucial even before. For Beijing, the main geostrategic advantage of the deal is related to a reduced reliance on sea-lanes dominated by the US Navy. But most importantly, in China the deal was clinched in the expectation that it will bring economic benefits. In sum, the deal is strategically significant, but on both sides it was driven mainly by economic considerations preceding the Ukraine crisis.

A straight-line projection from the present would show continually increasing dependence of China on Russia’s gas and increasing orientation of Russia’s energy infrastructures and economies to the East, also in light of the two countries’ shared belief that the world is changing in

⁵³ However, the implication is that Russia needs to develop powerful corporations, closely tied to the Kremlin, in order to negotiate from a position of strength. It is through these companies that Russia intends to continue to control East Siberia.

⁵⁴ In the words of Sergei Popov, Director of the International Research Center “Energy Infrastructure in Asia” in the Siberian Branch of the Russian Academy of Sciences, “Gas is a very good option for the future development of China” (China International Energy Cooperation Forum, September 4–5, Beijing).

⁵⁵ Putin seems willing to show flexibility on the Kuril Islands, especially in light of the Ukraine crisis. See for example: http://voiceofrussia.com/news/2014_05_24/Putin-surprised-by-Japan-joining-sanctions-against-Russia-7520/

However, Japan’s siding with Europe and the United States on Russia most likely means that Japan and Russia will make scant progress on the Kuril Island issue in the foreseeable future.

⁵⁶ Entailing a coordination of political and diplomatic efforts and military-technical cooperation.

favor of non-Western players. Under what conditions might there be a change in this trajectory of enhanced energy cooperation? Five alternative patterns can be posited.

- *Political destabilization of Ukraine*, powerful enough to indefinitely disrupt production and distribution of gas in present and presently planned channels, due to sanctions and counter-sanctions between Russia and the West and the latter's targeting of energy technology indispensable to the development of Eastern Siberia.
- *Another collapse of oil prices*. The price of crude Urals is now about \$110 a barrel, but at the end of 2008 it had plummeted to \$40. The high costs of extraction and disposition of East Siberian oil and gas render the region's ambitious development projects vulnerable to serious price weakness in the world market. The most likely to fall victim would be higher-cost projects, especially the Power of Siberia, with or without a Pacific link. In fact, low oil prices depress the Russian economy and sap its external power; high oil prices fatten the Russian state budget and therefore its foreign policy maneuverability.
- *Russian military revival*. The yearning for Russian national greatness, with its imperial echoes and military overtones, is prominent in current Russian rhetoric. But translating the words into reality is another matter, which the Yeltsin Kremlin was unable to achieve. Many now look on Vladimir Putin as the strongman who will "restore order." In Russia's eyes, the post-Soviet world order failed to take into account Russia's grievances, but Russia had to accept it because it was weak. Putin in particular resented the unchallenged supremacy of the United States and the aggressive assertion of American values.⁵⁷ Although Russia now seems to be advocating multipolarity, it has difficulty articulating the very concept it endorses, thereby raising justified suspicions that Putin's new order may be built only on revanchism. If Putin continues reengineering a rapid military backup and in the process appears more threatening to his Eastern neighbor, the face of Sino-Russian politics may change.
- *US policy retreat*. There is some domestic American opposition to the Obama administration's "pivot to Asia" on the grounds that it sacrifices a more important interest, good relations with China. Some Western Europeans also fear that Washington is unfairly and recklessly pushing Beijing out of the Pacific. Should the next administration be persuaded by such arguments or by the quasi-isolationist sentiment that US national interests are not engaged in that region, major support for the Sino-Russian strategic alliance could be withdrawn, because in such a case, China would rely much less on Russia's support to

⁵⁷ For a fascinating account on Putin's worldviews, see Gleb Pavlovskii's interview for the Guardian conducted in January 2012 by Tom Parfitt, where he says: "Putin belongs to a very extensive, but politically opaque, unrepresented, unseen layer of people, who after the end of the 1980s were looking for revanche in the context of the fall of the Soviet Union. I was also one of them. My friends and I were people who couldn't accept what had happened: who said we can't let it continue to happen. There were hundreds, thousands of people like that in the elite, who were not communists—I, for example, was never a member of the Communist Party. They were people who just didn't like how things had been done in 1991. This group consisted of very disparate people, with very different ideas of freedom. Putin was one of those who were passively waiting for the moment for revanche up till the end of the 90s. By revanche, I mean the resurrection of the great state in which we had lived, and to which we had become accustomed."

counterbalance a potential military threat by the United States in the Asia-Pacific region.

- *Russia's energy overtures in the South and East China Seas.* Russia, with its late entry into the geopolitics of the Asia-Pacific area, has recently embraced closer relations with regimes that are in political conflict with Beijing, such as Japan, Vietnam, and the Philippines. To prove that point, Gazprom is committed to start offshore gas production off Vietnam's coast in the South China Sea,⁵⁸ where China has extensive overlapping sovereignty claims.⁵⁹ Russia's disregard of sanctions in general, combined with its strong desire to keep good ties with the Asia-Pacific nations, will continue to work to a certain degree at cross purposes to China's foreign policy objectives. Notably, there is also a potential for a security dilemma over naval competition. However, concerns that the Russians will pose real competition in the Pacific seem largely unfounded. Given the immense costs of competing with China in its backyard, it is hard to imagine a scenario where Russia would pose a serious threat to China in this region.

Additional contingencies may be imagined. Combinations would probably magnify the postulated change. At this writing, however, the alternatives appear improbable. The Sino-Russian relationship has certain problems as evinced before, but does not seem in danger of foundering.

⁵⁸ See: <http://www.gazprom-international.com/en/news-media/articles/gazprom-and-petrovietnam-attain-planned-production-levels-moc-tinh-and-hai-thac> (accessed on September 10, 2014).

⁵⁹ Relations between China and Vietnam reached a sharp standoff in May 2014, when a Chinese oil rig appeared unannounced in waters claimed by both countries to explore for oil and gas. China has described the deployment of the rig as a normal business activity on the part of one of its companies. However, the rig was removed from the disputed waters in mid-July 2014.



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