

Russia's Energy Policy

Between Security and Transparency

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Introduction

An impressive variety of approaches to energy as a subject of international politics can be divided largely into two clusters, based on concepts of security and transparency. These two concepts are similar in at least one respect: their areas of practical application are potentially far-reaching. The number of social, political, and economic spheres not represented as security matters is dwindling. Meanwhile, the concept of transparency is being applied to an ever increasing spectrum of issue areas, from the spread of information on infectious diseases to early warning systems on conflict prevention.

The expansion of the concept of energy security is a good case in point. At the 2006 G8 summit in St. Petersburg, energy security was defined to encompass all links of the technological chain, from the exploration of energy resources, to energy production, to the transportation of energy products. Such a broad conception of energy security presumes that virtually every aspect of energy policy can be positioned within a security framework.

The concepts of security and transparency are competitors, attaching different meanings to discussions of energy problems. Use of the vocabulary of security indicates that a particular problem has moved beyond a normal state of affairs and possesses extraordinary traits. The vocabulary of transparency, on the other hand, suggests that a problem can and should be resolved with an established set of technical procedures and instruments. While the security discourse is centered on specificity and exceptionality, the discourse of transparency is focused on the routine, and aims to build a set of institutional arrangements to determine the norm on a whole spectrum of energy-related issues, including corporate governance, state-business relations, management of

resource flows, and financial accountability. To put it differently, security is a cornerstone of what might be called an explicitly politicized approach to energy issues, while transparency is a key component of an ostensibly depoliticized strategy.

Either Security or Transparency?

Security and transparency are typically articulated as mutually exclusive, and therefore contrasting, priorities of energy policy. The assumption is that either the entire spectrum of energy issues must be securitized, or the energy sector as a whole will move steadily toward greater transparency.

Today, Russia adheres to a rather securitized, and simultaneously highly politicized, approach to energy policy. Energy issues are at the heart of Russia's uneasy relations with its neighbors, including the Baltic countries, Poland, Ukraine, and Georgia. A good example of the politicization of these relations is the Russian-German gas pipeline deal, which plausibly stems from Moscow's reluctance to accept a meaningful role for states that are eager to position themselves as East-West energy intermediaries. Russia's neighbors accuse it of constructing politically motivated energy transportation routes, while Russia perceives its moves as strictly technological – dictated primarily by economic rationale and, in this respect, depoliticized. The Russian message, expressed technologically yet based upon clear political reasoning, stretches far beyond matters of energy security, however. It suggests that Russia does not need assistants or facilitators in its energy dialogue with major European powers. This is an assertion that threatens to drastically diminish the role of Russia's neighbors as brokers, bridges, connectors, and communicators. Indeed, Russia treats most of its neighbors as security challengers.

Russia's adherence to a security approach to energy makes it underestimate or ignore emerging practices of transparency in the oil and gas sectors. Much of the dynamism of this field is related to the new initiatives of the Extractive Industry Transparency Initiative (EITI) and the Publish What You Pay (PWYP) Coalition. Both are supported by a number of major international donors (including the Open Society Institute and the World Bank) and European governments. They also include in their pro-transparency activities most of Russia's southern neighbors (including Kazakhstan, Kyrgyzstan, Mongolia, Georgia, and Ukraine). Russia prefers to stay aloof from the EITI/PWYP network, at least in part from a fear of compromising its security for the sake of transparency commitments. Russian officials commonly say that those insisting on greater transparency in the energy sector wish to marginalize Russia as an economic competitor. This position has a number of serious political drawbacks, the most important of which are the creation of communication gaps between Russia and other major actors in energy markets. These gaps can potentially lead to Russia's gradual isolation in the emerging international community of transparency-promoting actors– a problem that looms large on Russia's diplomatic horizon.

Security Plus Transparency?

The stark opposition between security and transparency can be reversed, however. These concepts may be seen not only as a well-matched pair, but even as mutually reinforcing. One attempt to reconcile security and transparency was undertaken at the

G8 summit in St. Petersburg, where energy security was explicitly referred to in the context of transparency and vice-versa. Another example of the integration of the two concepts is the 2006 report of Global Witness, a UK-based nongovernmental organization, entitled “Funny Business in the Turkmen-Ukraine Gas Trade.” This report explicitly assumes a logical nexus between good governance and transparency, on the one hand, and the attainment of security, on the other. It implies that Russia’s external security would be much better served if energy relations between Kyiv and Ashkhabad were less secretive and more open to public scrutiny.

The security-transparency link can be interpreted in many ways. One is that security and transparency are compatible, as both can be achieved via a rule-based approach to the management of energy relations. Another is that the best way for major industrial countries to meet security needs in the long-term is by achieving greater transparency of supply and transport. Global Witness, for instance, argues that without transparency, there can be no predictability; without predictability, there can be no security of energy supply. This approach is largely shared by the EU-Russia Four Common Spaces concept.

Building security through transparency implies a peculiar type of de-securitization strategy, in which energy security issues are approached as parts of “normal” policy, with the presumption that technical standards and managerial techniques can be as functional and successful there as they are in many other vital spheres.

In Russia, the pursuit of this approach is complicated by the fact that most transparency-fostering impulses come from outside the country. Because the domestic demand for transparency in the energy sector is weak, international norms are unlikely to spill over automatically. Russia cannot be expected to implement transparency standards until it realizes their advantages and positive security implications.

The process of rethinking the importance of transparency for security can start in a number of different areas. The relevance of transparency to environmental policy is obvious. Many experts regard oil leakages, reported during the implementation of major international energy projects including the Baltic Gas Pipeline System, as among the most challenging security problems. In some geographical areas, including Baikal, Sakhalin, and the Shtockman gas field, the Russian government appears sensitive to demands for stronger environmental protection. One instrument that should be introduced urgently in Russia is ecological risk insurance – a practice that has proven effective in many Western states.

Second, implementation of transparency norms ought to be a key component in anti-corruption strategies within the energy sector. A recent study by the R-US Expert Transit Center in Nizhny Novgorod, in cooperation with the Washington, D.C.-based Transnational Crime and Corruption Center, identifies a number of areas where an insufficient degree of transparency directly undermines Russia’s economic security. Many government officials see the benefits of transparency mainly as they relate to tax collection. Yet the state also loses huge sums due to opaque and controversial procedures of licensing, the exploitation of mineral resources without proper licenses, and the existence of an illegal market for oil products, usually of very low quality. By the same token, most deals between oil and gas companies and regional authorities are

economically ineffective and lead to a misuse of vast resources on a wide scale. As a result, oil and gas revenues are not used effectively for reducing poverty or for fostering economic growth.

Third, greater transparency is a precondition for the enforcement of antitrust legislation in energy markets. It is in the interest of the state to avoid hidden collusion among major oil companies seeking to keep fuel prices high.

Fourth, transparency is important for Russian oil and gas companies that seek to invest in countries where more open and less restrictive operations are expected. In addition, energy companies and the government should be interested in disclosing information about payments from Russian investors into foreign state budgets.

Fifth, some international financial institutions now have disclosure provisions in their lending requirements for energy projects. Because Russia has expressed an interest in increased foreign investment, Moscow needs to comply with transparency standards that will convince foreign businesses of Russia's reliability and predictability.

Perspectives for Russia

Russia can use transparency practices domestically, to create a business-friendly economic environment with less corruption and more accountability, and also as an important foreign policy tool. The commitments taken to improve transparency are, by definition, of a mutual character, in the sense that they impose certain obligations upon all parties. Both domestic and external dimensions of transparency are conducive to stronger security policies, especially in such "soft" areas as the environment, protection of Russia's economic and financial interests, and the provision of social security benefits. There are numerous areas where security and transparency can complement each other, including the elaboration of shared standards of accountability on energy reserves and market forecasts, the elimination of administrative barriers, the enforcement of contracts, and public oversight of oil and gas revenues. Arguably, Russian security has already suffered in some cases from a lack of transparency on the part of international partners and major domestic actors.

Russia's commitment to transparency in energy security necessitates a combination of two approaches. One of these is grounded in political will. The decision of whether or not Russia will ever join the EITI, for example, is one that must be made by the president. The second approach is a technical one, focused on the introduction and enforcement of a series of administrative and managerial steps for implementing agreed-upon measures. Striking the proper balance between a political strategy aimed at enforcing transparency for the sake of greater security and an ostensibly depoliticized framework of different techniques of control and regulation will be a precondition for further institutional changes in this most important area of Russia's economy.