

RUSSIAN NATURAL GAS: ENABLER OF UNCOOPERATIVE FOREIGN POLICY

A Thesis
submitted to the Faculty of the
Graduate School of Arts and Sciences
of Georgetown University
in partial fulfillment of the requirements for the
degree of
Master of Arts
in Security Studies

By

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Washington, DC
November 18, 2009

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ABSTRACT

This thesis examines the link between Russia's natural gas and its foreign policy by testing the extent to which Russia's foreign policy became less cooperative towards European consumers of Russian natural gas as their demand for that gas increased. This paper uses two primary methods to test its hypothesis. First, it extensively reviews newspaper reports from 2003 to 2007 to determine the extent to which Russia's proportion of uncooperative foreign policy initiatives increased as the price of gas increased. The second method this paper uses to test the hypothesis is a close analysis of Russia's behavior in two case studies—Kosovo's bid for independence and Iran's nuclear program. The findings of this research depict a correlation between the price of natural gas and cooperation on foreign policy issues, as Russia became generally more uncooperative as the price of gas increased. However, Russia's behavior did not change on all issues, suggesting that the correlation between the price of natural gas and foreign policy cooperation is limited. This research underscores the need for Europe to generate a common energy policy and achieve greater energy independence, because Russia's foreign policy is likely to remain generally uncooperative as long as Europe is dependent on Russian natural gas.

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Chapter 1: Russian Natural Gas a Driver of Its Foreign Policy

Introduction

Between 2003 and 2007, Russia cut off gas supplies to neighboring countries, supported separatist movements in Georgia, and stymied international efforts to persuade Iran to abandon its nuclear program. These foreign policy initiatives caused alarm among western media and in the European Union, especially among European countries who consume Russian natural gas.¹ Why so much concern? By most measures, European customers of Russian natural gas are wealthier, are protected by the North Atlantic Treaty Organization (NATO) forces, and have their own armies. Still, Russia has access to something the Europeans need in large quantities—energy reserves. These reserves—including coal, oil, and natural gas—give Russia extraordinary influence over consumers of its energy products. Of its energy products, natural gas gives Russia the highest degree of leverage over its customers because the Kremlin has full control over all natural gas exports, as well as imports from Central Asia that are subsequently transferred to European consumers.² The dramatic rise in the price Europe paid for Russian natural gas reflected Europe’s growing demand and signified Europe’s increasing reliance on Russia’s gas.³ As natural gas prices rose,

¹When discussing European consumers, this paper is referring to Germany, Italy, Turkey, France, Poland, Austria, Hungary, Czech Republic, Slovakia, Finland, Estonia, Latvia, and Lithuania. At times this paper will use Europe as shorthand if judgments and assumptions about the consumers generally apply to all of Europe. For information on European consumers of Russia gas see Marshall Goldman, *Petrostate*, Oxford University Press, New York, 2008, pp. 166. For European concern about Russian foreign policy initiatives see “Five Events and How They Changed the World in 2006,” *Financial Times*, December 19, 2006, Comment section, pp. 19.

² Goldman *Petrostate* pp. 3 and 7; Nicholas Watson, “Russia Finds Growing Competition for Central Asia’s Oil and Gas,” *Business News Europe*, May 26, 2009, http://businessneweurope.eu/story1613/Russia_finds_growing_competition_for_Central_Asias_oil_and_gas

³Alexander Burbansky and Irina Elinevskaya, “Oil and Gas Yearbook 2009: Barrels of Burden,” July 31, 2009, *Renaissance Capital Partners*, pp. 152-157.

press reports and analysts depicted Russia as embracing a foreign policy that was increasingly at odds with Europe's.⁴ Russia's use of its natural gas as a weapon of foreign policy—such as when it cut off gas supplies to Ukraine in January 2006—underscored European consumers' vulnerability to Russia.⁵ Thus, Russia's natural gas has given Russia an increased capacity to oppose European foreign policy goals. The question this paper addresses is the extent to which Russia's energy resources correlate with shifts in its foreign policy. To address this question, this paper examines the relationship between the rising price of Russian natural gas exports over a specific time period—2003 to 2007—and the degree to which Russia cooperated with its natural gas customers on foreign policy issues.

Statement of Hypothesis and Summary of Findings

This paper's stated hypothesis is that Russia's foreign policy became less cooperative towards European consumers of Russian natural gas as their demand for that gas increased. The intention of this thesis is to identify relative changes in Russia's cooperation over a given time period. The analysis in this paper will help advance research on the link between Russia's energy resources—particularly its natural gas—and its foreign policy initiatives. This topic is important because it helps clarify key drivers of Russia's international strategy. Russia's vast energy reserves and Europe's lack of energy independence help to give Russia significant regional influence. Finally,

⁴ This point is made throughout Goldman, *Petrostate*. See also "Five Events and How They Changed the World in 2006," *Financial Times*, December 19, 2006, Comment section, pp. 19; "Uneasy Relationship," *Financial Times*, December 20, 2006, Europe section, pp. 6; and Paul Betts, "Why Putin Does Not Need To Hire a PR Firm" *Financial Times*, May 3, 2006, European Companies section, pp. 18.

⁵ "Five Events and How They Changed the World in 2006," *Financial Times*, December 19, 2006, Comment section, pp. 19.

as Russia has rebounded from the collapse of the Soviet Union, it has once again become a key actor in international affairs. Its energy reserves have helped to power its rebound.

This paper's findings support the notion that there is a correlation between Russia's foreign policy strategy towards consumers of its natural gas and the price at which it sells that gas. Russia became generally less cooperative towards its customers between 2003 and 2007—as the price of gas generally increased—although Russia's behavior did not always fluctuate to the same degree as the gas price. Russia also increasingly undermined efforts by several European countries to pressure Iran to abandon its nuclear program, behavior which also supports the main hypothesis. However, Russia's behavior towards key customers of its gas did not change as Kosovo moved towards independence from Serbia, indicating there are limits to the correlation between natural gas and foreign policy cooperation.

Hypotheses Test Conventional Wisdom in Media and Other Literature

Academics and journalists have argued that Russia's foreign policy this decade has often sought to stymie Western and European foreign policy initiatives and that Russia has used its energy resources as a weapon to support its policies.⁶ To date, no paper has rigorously tested these assertions. This paper tests this conventional wisdom to determine the extent to which there is a plausible correlation between natural gas and

⁶ For some examples, see: Thomas Carothers, "The Backlash Against Democracy Promotion," *Foreign Affairs*, Essay Section, March-April 2006, from pp. 55; Steven Pifer, speaking at a Brookings Institution event, February 19, 2009, http://www.brookings.edu/~media/Files/events/2009/0219_russia/0219_russia.pdf; Fred Weir, "Russia-Ukraine Gas Standoff," *Christian Science Monitor*, January 3, 2006, <http://www.csmonitor.com/2006/0103/p01s04-woeu.html>; and Anita Orban, *Power, Energy, and the New Russian Imperialism*, Praeger Security International, Connecticut, 2008.

Russia's foreign policy cooperation. Its intended audience is academics, think tanks, and other foreign policy analysts.

Several authors have helped to frame this paper's research plan. Marshall Goldman has argued that Russia's energy resources are its most potent diplomatic weapon and that its European customers will remain vulnerable to Russia gas politics because they lack alternative ways to obtain natural gas.⁷ Goldman's presentation shows how Russia used natural gas to punish its allies—by raising the price or threatening to cut off supplies—but it does not talk about foreign policy initiatives that had no direct connection to pipeline or other natural gas issues. A second critical author is Anita Orban. Orban's primary thesis is that neoclassical theory accurately predicts whether Russian energy companies will expand into Central Europe.⁸ Orban primarily limits her analysis to Baltic countries and omits several key consumers of Russian gas. Other academics such as Steven Pifer and Thomas Carothers and newspapers such as the *Financial Times* have depicted Russia as having become less cooperative with its European customers. These writers have cited as evidence Russia's protection of its pipeline monopoly and gas price disputes that prompted Russia to cut off the supply of natural gas to its neighbors.⁹

This thesis is not intended to be a polemic or to disagree with these arguments. Rather, it tests these judgments. Its findings provide more insight into the relationship between energy and international security. This paper also offers policy

⁷ Goldman, *Petrostate*, pp. 180-183.

⁸ Orban, *Power, Energy, and the New Russian Imperialism*, pp. 32.

⁹ "Five Events and How They Changed the World in 2006," *Financial Times*, December 19, 2006, Comment section, pp. 19.

recommendations for Europe to improve its current relationship with Russia and extricate itself from its dependence on Russian natural gas over the long term.

Methodology

In order to test the main hypothesis, this paper examines two relevant sub-hypotheses, using different methodologies. First, it reviews Russia's overall foreign policy posture between 2003 and 2007, and shows how Russia became generally less cooperative on foreign policy issues with consumers of its natural gas as that price rose. This section tests the sub-hypothesis that Russia became broadly less cooperative as the price of natural gas increased. To test this sub-hypothesis, this paper reviews *Financial Times* news reports on noteworthy Russian foreign policy initiatives from 2003 to 2007 to determine whether its uncooperative initiatives comprised a larger portion of its total foreign policy initiatives each year during those five years (as the price of natural gas rose). This paper emphasizes proportionality rather than an overall increase in uncooperative foreign policy events because Russia could have been increasingly active in world affairs—increasing its cumulative total of cooperative and uncooperative events—but promoted far more friendly policies than hostile initiatives.¹⁰

The second method this paper uses to test the main hypothesis is an assessment of Russia's cooperation with its European customers on two specific issues. This section analyzes a second sub-hypothesis—to what extent did Russia become less cooperative on specific foreign policy issues. This section reviews Russia's efforts to

¹⁰ This paper defines foreign policy initiatives as noteworthy if they were reported in the *Financial Times*. The *Financial Times* was chosen above other newspapers because it is the most widely read newspaper in Europe and because it has robust coverage of foreign policy issues important to Europe.

undermine the EU3's—comprised of Germany, France, and Great Britain—attempts to coerce Iran into abandoning its nuclear program, to include blocking referrals to the UN Security Council.¹¹ This section also tests whether Russia became increasingly assertive in opposing European (including consumers of Russian gas) support for Kosovo's bid for independence from Serbia.¹² These case studies were chosen for several reasons. For one, neither issue has an obvious link to natural gas (or other energy supplies), so the case studies test the extent to which Russia became less cooperative on issues unrelated to gas. At the same time, both issues were of great interest to Russia and to European consumers of Russian natural gas—meaning that Russia could potentially use its natural gas as leverage. Germany and France—countries that are deeply reliant on Russian gas—and Great Britain have led efforts to convince Iran to abandon its nuclear program.¹³ Kosovo was chosen as a case study for the opposite reason—because of the probability that it would not support the hypothesis. Russia long had attempted to undermine Kosovo's bid for independence. Because the Kosovo case study does not support the hypothesis, it reveals the limits of the correlation.

¹¹ As noted in the footnote 1, of the three countries, only France and Germany are significant consumers of Russian natural gas. Great Britain, however, may need Russian gas in the future. See "Dark Days Ahead" *The Economist*, Britain Section, 6 Aug 2009, http://www.economist.com/world/britain/displaystory.cfm?story_id=14177328

¹² For the sake of simplicity, this case study will use the expression European consumers. All significant consumers of Russia's gas with the exception of Moldova generally supported Kosovo's bid for independence. For an explanation of EU support for Kosovo's independence, see "Russia Condemns Kosovo Independence, EU Split," *EU Business*, 17 February 2008, <http://www.eubusiness.com/news-eu/1203272221.49>

¹³ Anna Lagenbach, "EU3-Iranian Negotiations: A New Approach," Nuclear Age Peace Foundation on wagingpeace.org, July 2005, http://www.wagingpeace.org/articles/2005/07/00_lagenbach_eu3-iran-approach.htm

Next, this thesis discusses the degree to which the findings support the main hypothesis. The two different methods used in this paper complement one another. The results of the first hypothesis show overall trends in Russia's cooperation on foreign policy, while the results of the second hypothesis depict the extent to which those results apply to specific foreign policy issues. Thus, testing the hypotheses using different methods increases the confidence in the overall results while revealing limitations between the price of gas and foreign policy cooperation.

The final section of this thesis assesses the direction in which Russian foreign policy is moving, and makes policy recommendations that should enable European consumers to obtain more energy independence and better balance their foreign policy goals with their need for Russian natural gas. The conclusion of this paper offers strategies for future study of this issue.

This paper focuses on the 2003 to 2007 timeframe for several reasons. Because this paper's primary intention is to probe the plausibility of the main hypothesis, significant increases in consumption and the price of natural gas from Russia are most likely to reveal any correlation between natural gas prices and foreign policy. Gas prices increased at a much higher rate than they did before 2003 and after 2007, potentially decreasing the possibility of identifying a link between the price of gas and foreign policy.¹⁴ In addition, between 2003 and 2007 several European economies grew and consumed more gas from Russia. For example, Germany, whose economy grew modestly between 2003 and 2007 when compared to other European countries, had

¹⁴ Burbansky and Elinevskay, "Oil and Gas Yearbook, 2009: Barrels of Burden," pp. 152-157. For economic growth, see: Basic Guide to the World Economic Growth, 1970 to 2007, The Global Social Change Research Project, May 2007, pp. 10, http://gsociology.icaap.org/reportpdf/World_Economic_Growth.pdf.

GDP growth of 1.7 percent from 2004 to 2005, .9 percent between 2005 and 2006, and 2.7 percent between 2006 and 2007.¹⁵ Meanwhile Russia exported 29.6 billion cubic meters of gas to Germany in 2003 and 34.4 billion cubic meters in 2006.¹⁶ The final reason for selecting this time frame is to limit the number of significant external factors that also would have influenced Russia's foreign policy. Russia had the same president—Vladimir Putin—during those four years, which undermines the argument that a change in political leadership prompted changes in foreign policy cooperation. Additionally, by 2008 many countries became preoccupied with the global economic crisis, potentially skewing any comparisons between price and international relations.¹⁷

This thesis treats the increasing price of gas as the independent variable. Russia treats the formulas it uses to negotiate its natural gas contracts with European customers as a state secret, so determining the exact price is impossible.¹⁸ Nonetheless, enough data are available to draw conclusions about the average price of natural gas sold to Europe from 2003 to 2007. The price of gas is linked somewhat to a basket of quoted oil products with a 6 to 9 month lag.¹⁹ Each year, Gazprom, as a publicly traded company, reports its revenue and its volume of sales, providing some insight into the sale price of its gas. Russia-based financial firms specializing in the

¹⁵ Index Mundi citing the CIA World Factbook,

http://www.indexmundi.com/germany/gdp_real_growth_rate.html

¹⁶ *Gazprom Annual Report, 2003*, May 25, 2004, pp. 66; and *Gazprom Annual Report, 2006*, May 27, 2007, pp. 50. Gazprom's gas exports to Germany were not provided in its 2007 Annual Report.

¹⁷ Robert Skidelsky, "Crisis-Hit Russia Must Scale Down Ambition," *Financial Times*, October 30, 2008, Opinion section, <http://www.ft.com/cms/s/0/33955fac-a687-11dd-95be-000077b07658.html> and David Oakley "Gloom Hits Russia and Brazil," *Financial Times*, October 17, 2008, <http://www.ft.com/cms/s/0/fc4070f4-9be2-11dd-ae76-000077b07658.html>

¹⁸ This information comes from two confidential interviews. One interviewee was a former employee of a Moscow-based investment bank who focused on energy issues. The other interviewee currently works for a Russia-based energy company.

¹⁹ Burbansky and Elinevskay, "Oil and Gas Yearbook, 2009: Barrels of Burden," 152-157. This information also comes from the interview of the employee of the Russia-based energy company.

energy industry also provide public assessments of Gazprom's business operations and gas pricing.²⁰

Importance of Topic: Russian Natural Gas Increasingly Vital to European Consumers, International Community

The issue of European energy supplies has become increasingly important this decade as Russia has used its natural resources, especially its hydrocarbons, to become an energy superpower.²¹ European countries, including US allies, who need Russian gas have in turn become vulnerable to Russia's foreign policy whims. While many European countries purchase only small amounts of natural gas or no gas at all from Russia, key European powers—including Germany, Italy, and France—import significant amounts of Russian natural gas.²² Thus the issue can impact the entire European Union. If relations between Russia and its consumers were to deteriorate, Russia would have the capability to severely damage several of those countries. Russia could cut off natural gas supplies to its European customers, almost certainly forcing them to ration energy supplies and hurting their economies. Some key European countries dependent on Russian natural gas have at times departed from EU policies to placate Russia. When Italy—which receives 26 percent of its natural gas from Russia—took over the EU presidency in 2003, it broke with its European counterparts by refusing

²⁰ As oil prices rise, gas prices also are sure to rise, but Russia has negotiated gas prices to reward cooperative countries and punish its rivals. For example, in 2007 Russia responded to an increasingly hostile Georgia by raising its price to roughly 235 dollars per 1,000 cubic meters—about the same price that Western Europe pays. See: Bernard Gelb, "Russian Natural Gas: Regional Dependence," CRS Report For Congress, January 5, 2007, <http://www.usembassy.it/pdf/other/RS22562.pdf>; and Goldman, *Petrostate*, pp. 150.

²¹ "Russia: Background" *Energy Information Administration*, <http://www.eia.doe.gov/cabs/Russia/Background.html>

²² Goldman, *Petrostate*, pp. 166.

to criticize Russia for alleged human rights abuses and by calling for increased dialogue on energy issues.²³

Finally, Russia can influence world affairs. It sits on the United Nations (UN) Security Council and can veto any UN initiatives or sanctions against its allies. Russia also has been a leader in opposing several western initiatives. As several European countries and the United States have tried to pacify the Balkans and support Kosovo's independence, Russia often has tried to undermine these efforts by, among other means, indicating that it would support independence movements in Georgia.²⁴ Russia also has stymied efforts by the EU3 to coerce Iran into abandoning its nuclear weapons program.²⁵ The wealth and power Russia derives from its natural gas supplies enable it to act uncooperatively. The rising price that European consumers pay for Russian gas reflects Europe's increasing demand for it, betraying this issue's importance.

Natural Gas, National Champion Critical to Russian Power

Russian political leaders, especially former President Vladimir Putin, have cited energy resources as critical to Russian power. A dissertation written by Putin is the best

²³ Goldman, *Petrostate*, pp. 152 and 166; and Tony Barber and Judy Dempsey, "Italy Lays Out Red Carpet For Putin Despite Yukos," *Financial Times*, November 6, 2003, Asia-Pacific and Europe section, pp. 10; and "Italy EU Presidency's Energy Policies, on the EU Energy Forum at <http://www.europeanenergyforum.eu/background-and-references/background-and-reference-documents/eu-presidencies-energy-programme/italy-eu-presidencys-energy-policies-2003-2>

²⁴ Russia implied that the West's recognition of Kosovo would prompt it to support the breakaway provinces of Abkhazia and Ossetia. In 2008 Russia did indeed recognize their independence. See James Blitz and Neil Buckley, "Moscow Warns West on Kosovo Stability," *Financial Times*, December 8, 2007, World News section, pp. 2; and Yuri Zarakhovich, "Russia Cashes in on Kosovo Fears," *Time*, March 8, 2008, <http://www.time.com/time/world/article/0,8599,1720718,00.html>; and Isabel Gorst and Stefan Wagstyl, "Brussels in Stand-off with Russia on Georgia," *Financial Times*, October 1, 2008, World News section, pp. 1.

²⁵ "Dark Days Ahead" *The Economist*, August 6, 2009, Britain Section, http://www.economist.com/world/britain/displaystory.cfm?story_id=14177328

available evidence that consolidation of the natural gas industry has been critical to empowering Russia. Russia has taken control of the hydrocarbon industry in a manner consistent with Putin's concept of the "national champion"— a company that promotes state interests over maximum profits.²⁶ Putin (who incidentally plagiarized large portions of his dissertation from University of Pittsburgh academics) argues that Russian national champions should be more than 50 percent owned by the state, provide cheap resources to its citizens, and support state foreign policy by, among other things, cutting off fuel supplies to uncooperative nations.²⁷ Putin wrote this dissertation prior to becoming president. Some of his energy policies may have changed between publication and his political ascendance, but as Harley Balzer has pointed out, "the level of effort involved in producing a major study of an important topic should allow insights into subsequent policy preferences."²⁸

The prime example of Putin's national champion is Gazprom—the first Russian energy company the Kremlin used to monopolize energy exports.²⁹ Russia's consolidation of Gazprom is proof of Putin's concept of the national champion. Since the late 1990s, the Kremlin has made Gazprom the largest and most powerful hydrocarbon company in the region and has prevented any significant foreign ownership. The method Russia used to take control of Gazprom is consistent with Putin's dissertation.

²⁶ Harley Balzer, "Vladimir Putin's Academic Writings and Russian Natural Resource Policy," *Problems of Post-Communism* (January/February 2006), 48-56. Also Discussed in Goldman, pp 98-99 as well as *In the National Interest at*

<http://www.inthenationalinterest.com/Articles/November2005/November2005Balzer.html>

²⁷ Clifford Gaddy, "It All Boils Down to Plagiarism," interview with *Washington Profile*, Johnson's Russia List #2006-78, March 31, 2006, <http://www.cdi.org/russia/johnson/2006-78-3a.cfm>.

²⁸ Harley Balzer, "The Putin Thesis and Russian Energy Policy," *Post Soviet Affairs*, Columbia: Jul-Sep 2005. Vol. 21, Issue 3, pp. 211.

²⁹ Miriam Elder, "How the State Got a Grip On Energy," *Moscow Times*, March 14, 2008, as cited on <http://www.cdi.org/russia/Johnson/2008-56-9.cfm>

As of early 1995, some 61.63 percent of Gazprom was owned by private (mostly domestic) investors, but in 1997, Russia enacted legal restrictions known as the “ring fence,” which outlawed any foreign purchases of Gazprom stock.³⁰ By then the Kremlin already had demonstrated its intent to make Gazprom a national champion, by, among other maneuvers, replacing its CEO in 2001.³¹ Finally, in late 2005, before Gazprom went public, Putin had its state run hydrocarbon company Rosneft purchase another 10.74 percent of Gazprom shares, giving the Russian government a 50.02 percent stake.³² This move ensured the government could choose Gazprom’s management and it precluded the possibility of a foreign business seizing a majority stake.³³ As Marshall Goldman points out, “By merging state-controlled Gazprom with state-owned Rosneft, [Putin] has signaled once again that the state will become a strong if not dominant voice in energy policy and economic planning.”³⁴ To ensure no natural gas company could compete with Gazprom, the Kremlin passed a law ensuring all natural gas would flow through Gazprom’s state-owned pipelines.³⁵

³⁰ Jason Bush, “Gazprom: Open For Global Investors,” *Business Week*, January 13, 2006, http://www.businessweek.com/bwdaily/dnflash/jan2006/nf20060113_8346_db039.htm and Goldman, *Petrostate*, pp. 83.

³¹ Sabrina Tavernise, “Putin Puts His Man in Charge at Gazprom,” *New York Times*, May 31, 2001, Business Section, <http://www.nytimes.com/2001/05/31/business/putin-puts-his-man-in-charge-at-gazprom.html?scp=1&sq=putin+gazprom+&st=nyt>

³² Goldman, *Petrostate*, pp. 83.

³³ Goldman, *Petrostate*, pp. 83.

³⁴ Marshall Goldman, “Putin and the Oligarchs” *Foreign Affairs*, Vol. 83, No. 6, November – December 2006, pp. 33.

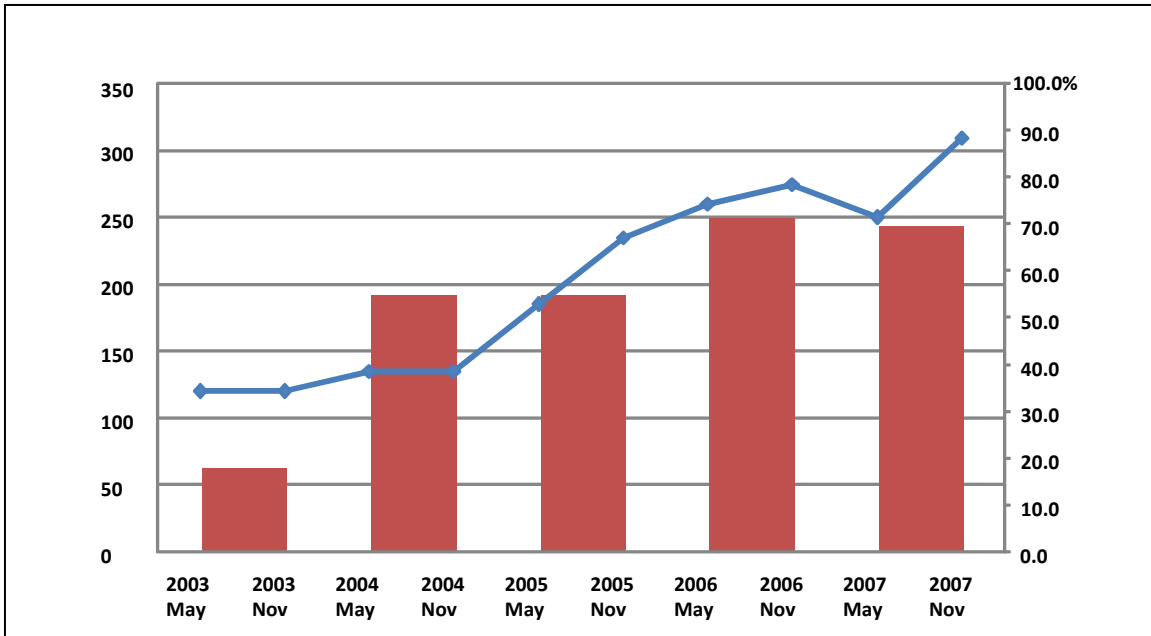
³⁵ “Russia’s Gazprom Profits Rocket,” July 7, 2006, *BBC.com*, <http://news.bbc.co.uk/2/hi/business/5159042.stm>. The utility of Gazprom as source of state revenue is immense. As of 2006 the company was the third largest corporation in the world, as measured by the value of its corporate stock—although since the start of the world economic crisis its share price has tumbled.

Chapter 2: First Hypothesis Partially Supported

Russia Becomes Less Cooperative as Gas Price Increases

Russia's overall foreign policy posture towards its European customers generally became less cooperative between 2003 and 2007, supporting the hypothesis that Russia became less cooperative as the price of natural gas increased. However, Russia's lack of cooperation is not perfectly synchronized with rising prices—as the gas price fluctuated, Russia's foreign policy did not immediately change. These results indicate there is a plausible correlation between rising gas prices and Russia's decreasing cooperation, but the results also show no change in foreign policy cooperation when the price fluctuates mildly.

To test this hypothesis, this paper reviewed over a thousand newspaper reports spanning 2003 to 2007 from the *Financial Times*. The results of the study are depicted in the graph below. This paper defines a foreign policy event as uncooperative if the event involved Russian statements or actions that were at odds with European consumers' foreign policy initiatives. Events defined as uncooperative include Russian policies and threats—either veiled or overt—to cut off natural gas to other countries or support independence movements in European countries (to include Russia's support for Abkhazia and Ossetia in Georgia). If Russia broke or left treaties it had previously signed, performed provocative military maneuvers, expelled diplomats, or enacted trade embargos or other import bans, those events also are defined as uncooperative. Events viewed as cooperative include trade agreements or new treaties, joint public statements with European consumers indicating support for similar policies, and invitations to foreign leaders to visit Russia.



Sources: *Renaissance Capital Partners* and *Financial Times* archives, 2003-2007. See Appendix A.

Line: Price of Natural Gas (\$/mil cubic meter)

Bars : Percent of Uncooperative Russian Foreign Policy Initiatives, By Year

This graph compares the price at which Russia sold its natural gas to European consumers, measured bi-annually in May and November, to Russia's percentage of uncooperative events over each year. The graph shows a general correlation between the rising price of natural gas sold to European consumers and Russia's foreign policy becoming less cooperative towards its customers, supporting the overall hypothesis. The graph does not reveal the reasons behind the relationship, just that a relationship potentially exists.

The graph also indicates that gas prices and foreign policy cooperation do not move in perfect tandem. The price at which Russia sold natural gas to its European

consumers rose less than 20 percent from 2003 to 2004. During that time period, the proportion of Russia's uncooperative foreign policy events increased from just over 10 percent to just over fifty percent. Curiously, from 2004 to 2005 Russia's proportion of uncooperative events increased only marginally while the price of gas jumped another 35 percent. The 2004 to 2005 trend repeats itself in the next two years. Between 2005 and 2006, Russia's percentage of uncooperative events jumped from over 50 percent to nearly 70 percent, but remained at roughly that level while the price of natural gas sold to European customers increased eight percent between 2005 and 2006, and then 12 percent between 2006 and the end of 2007. Thus, a correlation in general trends exists although Russia's foreign policy cooperation did not decrease to the same degree as the price of gas increased.

General Decrease in Cooperation Observable As Gas Price Rises (January 2003 to November 2006)

The link between increasing natural gas prices and Russia's lack of cooperation on foreign policy issues is most apparent when the price increased relatively steadily, as it did during the early 2003 to late 2006 time frame. Natural gas prices increased over 100 percent from their levels in 2003; at the same time Russia's annual proportion of uncooperative foreign policy initiatives increased from roughly 35 percent to nearly 80 percent. This does not necessarily indicate a mathematical relationship between natural gas prices and foreign policy cooperation exists, however it is notable that both increased significantly.

Why Russia became less cooperative from 2003 to 2004 is unclear, but its foreign policy initiatives after early 2004 show a clear break from its general willingness to cooperate with European customers in 2003. Russia's cooperation with European consumers in 2003 revolved mostly around its engagement with France and Germany in opposing the US- and British-led drive to garner international support for the war in Iraq. This cooperation continued after the war as well.³⁶ In general, Russia portrayed itself as open to European ideas and its foreign policy initiatives often overlapped with Europe's interests. In addition to cooperating on the Iraq war, Russia also signed several economic agreements with Europe, pledged to reform its own economy to mirror Europe's, proposed visa-free travel between Europe and Russia, and invited several European leaders to visit Russia.³⁷

Russia's foreign policy by 2004 had become more uncooperative towards its European customers. The reasons behind this change in posture are unclear. Russia may have reacted sharply to persistent European criticism of Russia's violation of the human rights of Mikhail Khordorkovsky, whom Russian police detained for tax evasion after he had publicly criticized Putin and challenged the state's monopoly on energy

³⁶ For example, see: Jo Johnson and Haig Simonian, "Coup for Chirac as Moscow and Berlin Fall in Line," *Financial Times*, February 25, 2003, pp. 8; Guy Dinmore and James Harding, "Emergency Summit to Consider Final Options," *Financial Times*, March 15, 2003, Front Page section, pp. 1; and Judy Dempsey, Andrew Jack, and Mark Turner, "Security Council Set to Swing Behind Revised Resolution," *Financial Times*, May 21, 2003, Middle East & Africa section, pp. 12.

³⁷ Andrew Jack, "Russia Fears Creation of 'New Berlin Wall' in EU" *Financial Times*, May 30, 2003, Europe section, pp. 4; Judy Dempsey and Andrew Jack, "'Holding Operation' Rewards Putin for Pro-Western Stance Ahead of Elections," *Financial Times*, June 2, 2003, World News section, pp. 8; and Andrew Jack, "Moscow Calls for Pipeline Partners," *Financial Times*, October 11, 2003, International News section, pp. 7.

exports.³⁸ Russia also may have become more assertive because it judged that NATO countries were infringing on its historical sphere of influence in the Baltic States.³⁹ However, Russia also became broadly more xenophobic and became less willing to explore economic cooperation with Europe after 2004, despite several initiatives in 2003.⁴⁰ Russia cracked down on foreign nongovernmental organizations and foreign businesses and stymied attempts to cooperate on economic issues.⁴¹ That Russia reneged on economic issues and showed increasing hostility towards European influence suggests Russia judged it could mitigate any resulting negative fallout. It is possible that as the Kremlin consolidated control of the natural gas industry and was well-positioned to reap the benefits of the rising price of gas, the Kremlin felt empowered enough to increasingly push interests at odds with Europe.

In some cases, Gazprom's efforts to expand and generate larger profits also advanced Russian foreign policy goals—such as when Russia cut off Ukraine's portion of gas after Ukraine moved closer to NATO—demonstrating a clear link between natural gas prices and cooperation on foreign policy issues.⁴² Gazprom also has publicly alluded to truculent relationships between Gazprom and its clients—relationships that the international community perceived as a zero-sum competition for state power. For

³⁸ "When Powers Collide: Putin vs. Khordorkovsky," *Business Week*, May 31, 2004, http://www.businessweek.com/magazine/content/04_22/b3885101_mz054.htm and Goldman, "Putin and the Oligarchs."

³⁹ Daniel Dombey and Andrew Jack, "Prickly Russia Revives EU Summit Meeting," *Financial Times*, November 12, 2004, Europe section, pp. 6; and Judy Dempsey, "Moscow Warns NATO Away From the Baltics" *Financial Times*, March 1, 2004, Europe section, pp. 6.

⁴⁰ Michael McFaul and Kathryn Stoner-Weiss, "The Myth of the Authoritarian Model," *Foreign Affairs* Vol. 87 No. 1 January – February 2008; and Judy Dempsey, "Russia Rejects Trade Links with New EU Members" *Financial Times*, February 11, 2004, Europe and the Americas section, pp. 3.

⁴¹ McFaul and Stoner-Weiss, "The Myth of the Authoritarian Model;" and Dempsey, "Russia Rejects Trade Links with New EU Members," *Financial Times*, pp. 3.

⁴² Gleb Garanich, "Russia-Ukraine Gas Standoff," *Christian Science Monitor*, January 3, 2006, <http://www.csmonitor.com/2006/0103/p01s04-woeu.html>

example, Gazprom's annual report in 2004 notes the company "managed to overcome a complicated period of relationships in the gas sphere with Belarus, which is now developing its cooperation with Gazprom in a constructive manner."⁴³ This is a clear reference to February 2004, when Russia briefly interrupted natural gas supplies to Belarus.⁴⁴ Belarus, along with Ukraine, is a main transit route for gas flowing from Central Asia through Russia to Europe—so these threats caused alarm among European nations.⁴⁵ Russia revisited this issue in 2006 and threatened to cut off Belarus's natural gas supplies unless it agreed to pay four times more for Russian natural gas.⁴⁶ Analysts in Russia and Belarus noted⁴⁶ that Moscow was penalizing Belarusian President Alexander Lukashenko for not closely integrating with Russia as it had pledged to do earlier in the year.⁴⁷ The price increase also probably was a result of Beltransgaz's, the Belarusian gas distributor, refusal to sell half of its ownership to Gazprom.⁴⁸ The interaction between Russia and Belarus shows a direct link between natural gas and foreign policy, as well as depicting Gazprom efforts to directly support Russian state interests. Notably, Gazprom's behavior also is consistent with Putin's "national champion" program, whereby state-owned companies project Russian interests.⁴⁹

⁴³ Gazprom, Annual Report 2004, May 17, 2005, pp 4.

⁴⁴ "Facing Russia down: The EU Must be More Coherent Towards its Big Neighbor" *Financial Times*, February 25, 2004, Leader, pp. 18.

⁴⁵ "Facing Russia down: The EU Must be More Coherent Towards its Big Neighbor" *Financial Times*, pp. 18.

⁴⁶ Neil Buckley, "Putin Turns on Close Ally Belarus," *Financial Times*, December 13, 2006, http://www.ft.com/cms/s/0/ea29b9e2-8ae2-11db-8940-0000779e2340.html?nckick_check=1.

⁴⁷ Buckley, "Putin Turns on Close Ally Belarus," *Financial Times*, December 13, 2006.

⁴⁸ Buckley, "Putin Turns on Close Ally Belarus," *Financial Times*, December 13, 2006.

⁴⁹ Alex Alexiev, "Putin's House of Cards Coming Down," *Kyiv Post* as posted on the Hudson Institute website, January 13, 2009, http://www.hudson.org/index.cfm?fuseaction=publication_details&id=5964&pubType=RusSov

Price and Cooperation Fail to Move in Tandem During Short-Term Price Changes (November 2006 to December 2007)

If this model was fully explanatory, it would observe Russia's foreign policy become more cooperative as the price of gas decreased, and would observe Russia's foreign policy become less cooperative at a faster rate if the price of gas quickly skyrocketed. The graph, however, indicates that Russia's foreign policy did not significantly change following dramatic, short-term swings in the price of gas. From November 2006 to May 2007, the price of gas dropped about 10 percent because of an unexpectedly warm winter.⁵⁰ During this time period, the percentage of uncooperative events was roughly 74 percent, roughly the same as it was between 2005 and 2006. Russia made no changes to its foreign policy strategy, and continued to bully European and Baltic countries. Russia slapped food embargos on Polish meats after Poland joined the European Union, and in December threatened to cut off natural gas supplies to Georgia and Belarus if they did not pay significantly higher prices.⁵¹

Between May and the end of 2007, gas prices jumped 26 percent, while the percentage of uncooperative events dropped to about 66 percent. Russia's behavior was mixed at this time. While it bullied its neighbors and withdrew from the Conventional Armed Forces treaty with Europe, Russia also surprisingly supported

⁵⁰ Burbansky and Elinevskay, "Oil and Gas Yearbook, 2009: Barrels of Burden," pp. 152.

⁵¹ "Gazprom Raises the Stakes Over Belarus," *Financial Times*, December 30, 2006, pp. 14; Arkady Ostrovsky, "Georgia Agrees to Gazprom Price," *Financial Times*, December 23, 2006, Europe section, pp. 2; and Andrew Bounds, Neil Buckley, and Daniel Dombey, "Russia Threatens to Ban EU Meat," *Financial Times*, November 22, 2006, Europe section, <http://www.ft.com/cms/s/0/0e7fde26-7a61-11db-8838-0000779e2340.html>.

Ukraine's efforts to remove intermediary (read: Russian) companies from its domestic gas sector.⁵²

These inconclusive results may be the result of a lag between the rising price of gas and a change in foreign policy. Russia did become somewhat more cooperative on foreign policy issues in late 2007, which may have been a response to the decrease in gas price in late 2006 for several months. This concept assumes Russia takes a backward look at gas prices—in other words, that Russia moves according to its foreign policy strategy on past gas prices. In that case, there would almost certainly be a lag between a change in price and change in cooperation, since any bureaucracy is slow to react to changes. If the concept of the lag is accurate, a gas price jump in late 2007 probably would be met with a decrease in cooperation in early 2008. It is worth noting that Russia's foreign policy was overwhelmingly hostile in early 2008. Russia again cut gas supplies to Ukraine in the spring of 2008, threatened Poland and other NATO members over their willingness to host US ballistic missiles, and invaded Georgia in August.⁵³ This behavior is consistent with the notion of a lag.

However, if Russia based its foreign policy on its projections of natural gas prices, then its foreign policy strategy would move more closely in tandem with the price (there would be less of a lag) or might precede a rise in price. While prices dipped in the

⁵² Stefan Wagstyl, "The Year Russia Flexed Its Diplomatic Muscle," *Financial Times*, December 17 2007, pp. 4; James Blitz and Stephen Fidler, "Putin Poised to Freeze Arms Pact as Assertiveness Grows," *Financial Times*, December 12, 2007, World News section, pp. 6; and Roman Olearchyk, "Moscow Gas Move Wins Kiev Approval," *Financial Times*, October 17, 2007, World News Section, pp. 6.

⁵³ Catherine Belton "Russia Forced Into New Arms Race, says Putin," *Financial Times*, February 9, 2008, World News section, pp. 5; Catherine Belton and Roman Olearchyk, "Russia Halves Gas Supply to Ukraine," *Financial Times*, March 5, 2008, World News section, pp. 10; and Charles Clover and Harvey Morris, "Crisis as Russia and Georgia Clash," *Financial Times*, August 9, 2008, Front Page section, pp. 1.

winter of 2006-2007 because of unexpectedly warm weather, Russia could have projected the gas price would rise based on other economic indicators and planned its foreign policy accordingly. The challenge with testing this judgment is that Russia's projections would need to be publicly available and accurate. This concept is nonetheless plausible in a broader sense. Europe's economy expanded alongside the world economy after 2003, potentially prompting Russia to judge that European consumers would require more of its gas and thus pay a higher price over the course of the decade.⁵⁴ A final argument against the lag concept is the role of politics in price negotiations, which along with the oil market forces was a factor in price contracts. Russia could have tailored its negotiations to support its foreign policy by charging higher prices.

Chapter 3: Results of Iran and Kosovo Case Studies Mixed

Iran Case Study Supports Second Hypothesis

Russia became less cooperative with the EU3—Germany, France, and Britain—over Iran's nuclear program between 2003 and 2007.⁵⁵ This change in behavior supports the second hypothesis, which states that Russia's posture on specific foreign policy issues became less cooperative as the price of natural gas increased. Prior to that, Russia had been generally supportive of the EU3's efforts to persuade Iran to abandon its nuclear program.

⁵⁴ Economic Commission for Europe, Economic Survey of Europe, United Nations Publications, Geneva, Switzerland, Vol. 1, 2004.

⁵⁵ The other key actor influencing policy towards Iran was the United States. Russia's longstanding suspicion of the United States almost certainly influenced some of Russia's strategy.

In late 2002 through early 2003, Russia backed EU3 negotiations with Iran, which offered economic incentives to halt nuclear enrichment.⁵⁶ Taking another step to support the EU3's efforts, Russia delayed completing the Bushehr nuclear reactor as well as signing an agreement to provide Iran with nuclear fuel.⁵⁷ In 2003, Russia generally was united with the EU3 in taking steps to oppose Iran's nuclear program. In June of that year Russia threatened to not supply nuclear fuel to Iran unless it answered a host of International Atomic Energy Agency (IAEA) questions about the Iranian program.⁵⁸

By 2005, Russia's cooperation with the EU3 became inconsistent. In February, Russia agreed to provide Iran nuclear fuel and other technology despite Iran's refusal to negotiate with the EU3.⁵⁹ While Russia nominally included safeguards to prevent fuel and technology from supporting Iran's weapons program, the EU3 remained concerned that this fuel strengthened Iran's position by allowing it to focus more of its resources on enriching uranium for weapons.⁶⁰ Additionally, since the deal lacked an inspection clause, there was no assurance that Iran would use Russian technology only for peaceful purposes.⁶¹

⁵⁶ Robert O. Freedman, "Russia and the Middle East: A Possible U.S. Partner for Peace?" in Ariel Cohen, ed., *Heritage Foundation Report: Russia and Eurasia*, pp. 38, March 27, 2009.

⁵⁷ Freedman, "Russia and the Middle East: A Possible U.S. Partner for Peace?" pp. 38.

⁵⁸ Judy Dempsey, "Iran: EU May Push for Inspections Before Looking at Trade Deal," *Financial Times*, Middle East section, May 30, 2003, pp. 7.

⁵⁹ "Russian Nuclear Deal Signed," *BBC.com*, February 27, 2005
http://news.bbc.co.uk/2/hi/middle_east/4301889.stm.

⁶⁰ "Russian Nuclear Deal Signed," *BBC.com*, February 27, 2005.

⁶¹ "Russian Nuclear Deal Signed," *BBC.com*, February 27, 2005.

In September 2005, Russia objected to a UN resolution that claimed Iran was not complying with the IAEA.⁶² Then, despite calls by Iranian President's Mahmud Ahmadenijad for Israel to be "wiped from history," in November Russia signed an agreement with Iran to provide it sophisticated surface-to-air missiles, which it could use to protect its nuclear installations from air strikes.⁶³ This deal was particularly notable because it reflected Russia's unflagging support for Iran even as Iran became more hostile to the western world and had cut off negotiations with the EU3. Plus, in providing surface to-air-missiles, Russia was directly undermining a potential response to Iran—a military strike by NATO or other military forces—and was thereby strengthening the Iranian bargaining position to the detriment of the EU3.

At the beginning of 2006, Russia became mostly uncooperative on EU3 negotiations with Iran. A second watershed event was March 2006, when Russia ambushed an EU-US effort to refer Iran to the United Nations Security Council with a last minute proposal that Iran be allowed to make some of its own nuclear fuel.⁶⁴ Russian initially had agreed to support referring Iran to the UN Security Council, making its reversal all the more embarrassing and disruptive.⁶⁵ This proposal was a reversal of Russia's previous stance on Iran's enrichment activities, which up until the IAEA meeting had been more consistent with Europe's policy. The *New York Times* noted that

⁶² Daniel Dombey, "Russia Scuppers EU Strategy on Iran," *Financial Times*, September 23, 2005, Middle East section, pp. 11.

⁶³ Freedman, "Russia and the Middle East: A Possible U.S. Partner for Peace?" pp. 38.

⁶⁴ Elaine Sciolino, "Russia and West Split on Iran Nuclear Issue," *New York Times*, International section, March 7, 2006, http://www.nytimes.com/2006/03/07/international/europe/07iran.html?_r=1&scp=1&sq=russia+iran+europe+nuclear&st=nyt

⁶⁵ Steven R. Weisman, "China and Russia Support Sending Iran Case to U.N." *New York Times*, International section, January 31, 2006, <http://www.nytimes.com/2006/01/31/international/middleeast/31dipl.html?scp=8&sq=russia+iran+europe+nuclear&st=nyt>

Russia's proposal was "motivated by its determination to protect Iran from judgment by the Security Council."⁶⁶ Giving credence to this interpretation was Russia's prior request for the UN to allow Russia to pursue its own negotiations with Iran.⁶⁷ Despite making no bilateral progress, in October Russia rejected EU3-supported sanctions on Iran because, Russia claimed, they were "too tough."⁶⁸ Thus Russia's pattern of behavior after 2005 was to protect Iran from sanctions in the UN and to prevent it from being isolated.

The only overt link to Russia's strategy and natural gas was revealed in 2007, when Russia agreed in principle to an Iranian proposal that would create a natural gas version of Oil and Petroleum Exporting Countries (OPEC). This new organization could have helped natural gas exporters strategize on how to maximize their profits and use natural gas as a political tool (to be clear, Russia claimed to be opposed to price fixing and said the purpose was to ensure stable gas supplies).⁶⁹ This project remains in the conceptual stage, and because natural gas is not a fungible commodity like oil a natural gas OPEC would have been mostly unable to influence the spot market price of oil.⁷⁰ However, Russia's natural gas strategy may have influenced its policy towards Iran more than is obvious. Russia has no natural reason to support Iran's pursuit of nuclear weapons; a nuclear armed Iran is as much a threat to Russia as it is Europe. Historically, the Iranian and Russian empires have been rivals, and the Iranian revolution

⁶⁶ Sciolino, "Russia and West Split on Iran Nuclear Issue," *New York Times*, March 7, 2006.

⁶⁷ Guy Dinmore, "EU Considers New Russian Proposal on Iran," *Financial Times*, January 19, 2006, World News section, pp. 10.

⁶⁸ Najmeh Bozorghmehr, Guy Dinmore, and Daniel Dombey, "Russia Rejects Proposed Sanctions on Iran," *Financial Times*, November 3, 2006, Europe section, pp. 6.

⁶⁹ Steven Lee Myers, "Russia Considers Cooperating With Iran to Sell Natural Gas" *New York Times* from the *International Herald Tribune*, February 1, 2007, Europe section, <http://www.nytimes.com/2007/02/01/world/europe/01iht-putin.4437212.html>

⁷⁰ Brian Wingfield, "An OPEC for Natural Gas?" *Forbes.com*, April 6, 2007, http://www.forbes.com/2007/04/06/gas-cartel-doha-biz-energy-cx_bw_0406business1.html

viewed communism as atheistic and objectionable.⁷¹ So why then did Russia increasingly thwart EU3 efforts to disarm Iran? One persuasive argument is that Russia retains its leverage over Europe by perpetuating the status quo—keeping Europe at odds with Iran while obstructing the painful sanctions that could prompt Iran to accede to the EU3's demands. This strategy prevents Iran from normalizing political and economic ties with Europe. Normalized relations could include a deal in which Europe began importing Iranian natural gas through a pipeline transiting the Caspian Sea. This would compete with Russian gas, a circumstance Russia probably wants to avoid. *Washington Post* columnist Fred Hiatt recently has made a similar argument: "...as long those relations are sour—and the West won't buy Iran's natural gas—Russia's leverage over Europe, as Europe's main gas supplier, is enhanced."⁷² Thus even as Europe deals with Iran and Russia, Russia's foreign policy strategy is in part driven by its desire to maintain its status as the dominant supplier of natural gas to Europe.

Implications of Iran Case Study

The Iran case study supports the hypothesis that Russia became less cooperative with the EU3 over a specific foreign policy issue as the price of natural gas increased. The case study reflects a shift in Russian policy from somewhat cooperative, to inconsistent, to generally uncooperative. Accordingly, there is a general correlation between the rising price of gas and Russia's lack of cooperation. There are several

⁷¹ Russia and Iran's longstanding rivalry is frequently discussed in Lord Kinross, *Ottoman Centuries*, First Morrow Quill, New York, 1977. Leaders of the Iranian Revolution also were hostile towards communism, as discussed in Stephen Walt, *Revolution and War*, Cornell University, New York, 1996, pp. 230.

⁷² Fred Hiatt, "Does Russia Get It?" *Washington Post*, October 4, 2009, Editorial page, <http://www.washingtonpost.com/wp-dyn/content/article/2009/10/02/AR2009100204951.html?hpid%3Dopinionsbox1&sub=AR>

resulting implications for this correlation. First, Russia may have judged that it could be uncooperative because of the wealth and power it generated from its natural gas supplies and leverage over Europe. If true, this argument could also support a causal relationship between natural gas prices and Russia's lack of cooperation regarding Iran's nuclear program. An equally plausible argument, however, is that Russia's desire to maintain its dominance of the natural gas supply to Europe drove it to support the status quo and oppose the EU3's initiatives. This concept does not necessarily support a causal relationship between rising gas prices and Russia's foreign policy cooperation. On the one hand, it could be argued that Russia identified the utility its expensive natural gas provided the state and its relations with Europe, and judged it could manage fallout from uncooperative relationships with Europe. On the other hand, Russia might have supported its natural gas monopoly regardless of whether the price increased or decreased.

A second unanswered question is why Russia shifted its stance towards Iran in 2004. There are several possible explanations. Russia may have felt secure in opposing the EU3 because it was charging Europe roughly 66 percent more for gas than it had the previous year.⁷³ Alternatively, Russia may have changed its strategy because it felt insecure that the EU3 was driving the agenda and neglecting Russia's international prestige, particularly as America began to support the EU3's efforts. Finally, as Hiatt posits, Russia may have judged that by being uncooperative it could use the prospect of future cooperation to extract concessions from the US and the EU3 on other issues.⁷⁴

⁷³ Burbansky and Elinevskay, "Oil and Gas Yearbook, 2009: Barrels of Burden," 154.

⁷⁴ Hiatt, "Does Russia Get It?" *Washington Post* October 4, 2009.

Kosovo Case Does Not Support Second Hypothesis

Russia did not change its cooperation with its European customers from 2003 to 2007 over Kosovo's bid for independence, which contradicts the hypothesis that Russia became less cooperative as the price of gas increased.⁷⁵ This is not because Russia cooperated with the European Union—there was just no change in Russian behavior. Russia was consistently uncooperative regarding the issue of Kosovo's independence. Russia historically has portrayed itself as protectors of Serbians, and since the mid 1990s Russia has objected to any support for Kosovo's independence bid. Jock Covey points out that in the 1990s "...the Russians did everything they could to harass UNMIK [United Nations Mission in Kosovo], and frequently went beyond harassment to a kind of viciousness that was rather deflating."⁷⁶

Russia's cooperation on this issue did not change from its strategy of the mid-1990s, nor did Russia make significant changes to its cooperation between 2003 and 2007 as gas prices increased. Russia was part of KFOR (a multi-national coalition of forces in Kosovo) until it withdrew its troops in 2003, claiming the objectives of the mission had been completed while questioning NATO's impartiality.⁷⁷ For the next several years, Russia made relatively few belligerent public statements regarding Kosovo. In fact, an intergovernmental official based in Kosovo has noted that Kosovo Serbs at the time generally were surprised by Russia's lack of diplomatic support for and

⁷⁵ See footnote 15 for an explanation of which European countries supported Kosovo's bid for independence.

⁷⁶ Jock Covey, Michael Dziedzic, and Leonard Hawley, *The Quest for a Viable Peace*, United States Institute of Peace, Washington, DC, 2005, pp. 89.

⁷⁷ Alexander Nikitin, "Partners in Peacekeeping," NATO Review, Winter 2004 Issue, <http://www.nato.int/docu/review/2004/issue4/english/special.html>

attention to their concerns.⁷⁸ Some Russian policies suggest Russia at times was potentially more flexible as the price of gas increased. For example, in 2006 Russia claimed to western diplomats it would not block Kosovo's bid for independence.⁷⁹ Also in 2006, Russia joined Britain, France, Germany, Italy and the US in authorizing the UN mediator to work towards a final status plan for Kosovo, which could be interpreted as a tacit acquiescence to Kosovo's independence bid.⁸⁰

Later, however, Russia did become increasingly outspoken as Kosovo sought to achieve independence. Russia attempted to pressure European nations, including its customers, to oppose Kosovo's independence throughout much of 2007 and threatened to veto any UN resolution acknowledging its independence.⁸¹ Most of these Russian statements were a result of Kosovo's independence coming to fruition—Kosovo's vote for independence did not occur until late 2007. For years prior to 2007, it had been a back-burner issue.⁸² Talks of Kosovo's independence had been in the conceptual stage and Russia may have had other priorities and not felt compelled to raise the issue.

Interestingly, rather than continue seeking to undermine an independent Kosovo or the Organization for Security and Cooperation in Europe (OSCE) mission in Kosovo after it

⁷⁸ This information comes from a confidential interview with a Kosovo-based intergovernmental official familiar with Kosovo public opinion.

⁷⁹ Guy Dinmore and Daniel Dombey, "Russia and China Give Assurances They Will Not Stand in the Way of Kosovo Independence," *Financial Times*, March 15, 2006, Europe section, pp. 3.

⁸⁰ "Europe: Kosovo: U.N. Cautions Albanians Over Talk of Revolt," *New York Times*, September 21, 2006,

<http://query.nytimes.com/gst/fullpage.html?res=9F07E2DB1131F932A1575AC0A9609C8B63&sc p=39&sq=russia+kosovo+europe&st=nyt>

⁸¹ James Blitz and Neil Buckley, "Moscow Warns West on Kosovo Stability," *Financial Times*, December 8, 2007, World News section, pp. 2; and Stefan Wagstyl, "Moscow Issues a Warning Over Kosovo," *Financial Times*, April 27, 2007, World News section, pp. 6.

⁸² Nicholas Wood, "Kosovo May Soon Be Free of Serbia, but not Supervision," *New York Times* November 2, 2006, Europe section, <http://www.nytimes.com/2006/11/02/world/europe/02kosovo.html?scp=40&sq=russia+kosovo+europe&st=nyt>

declared independence, Russia generally dropped the issue of Kosovo, did not push for the OSCE to be forced out of Kosovo, and instead focused on its difficult relations with Georgia.⁸³ Russia used the West's recognition of Kosovo's independence as a pretext to support secessionist movements in Georgia (which eventually led to the brief Georgian-Russian War in 2008).⁸⁴ Notably, these Russian threats followed shortly after Gazprom's failed attempt to procure an ownership stake in Georgia's pipelines.⁸⁵ Russia's cooperation with European consumers over Kosovo was at worst inconsistent.

Implications of Kosovo Case Study

That Russia did not observably modify its cooperation with its European consumers between 2003 and 2007 over Kosovo has several implications. This inconsistent pattern of cooperation with European consumers on the Kosovo issue contradicts the hypothesis that Russia became less cooperative with its customers as the price of its natural gas rose. Russia had persistently opposed Kosovo's bid for unification, but it did not become less cooperative on the issue. Russia's general disposition towards its customers of natural gas was combative, but Russia did little more than offer public statements of support for Serbia's sovereignty. Russia certainly had opportunities to become less cooperative. It could have shown more public solidarity with Serbian officials or used the United Nations Security Council as a pulpit to press its agenda in Kosovo. Russia could have attempted to undermine Kosovo's sovereignty by giving materiel or financial support to movements inside Kosovo that

⁸³ This information comes from the same confidential interview with the intergovernmental official based in Kosovo.

⁸⁴ Blitz and Buckley "Moscow Warns West on Kosovo Stability," *Financial Times*, December 8, 2007, pp. 2.

⁸⁵ Goldman, *Petrostate* pp. 150.

overwhelmingly preferred unification with Serbia. Instead, it used the Kosovo issue as a pretext to support separatist movements in Georgia. The results of this case study suggest some issues have greater sway than the price of natural gas on Russia's foreign policy initiatives. In this instance, Russia was more concerned about protecting its influence over its neighbor in the Caucasus than in preventing Kosovo's independence bid.

Russia's actions indicate it values its relationship with Serbia, yet not enough to take more drastic steps to prevent Kosovo's independence. Russia, then, probably judged it lacked the influence to undermine Kosovo's independence—or, that it was not worth the political capital to work to undermine Kosovo's sovereignty after it declared its independence.

Chapter 4: Results of the Sub-Hypotheses and Alternate Explanations

Conclusions from Sub-Hypotheses

The findings from testing the two sub-hypotheses suggest a correlation between natural gas prices and Russia's cooperation with its customers on foreign policy issues. However the findings also indicate that the relationship is limited. The model in this paper indicates there is a correlation with long-term trends, and that the relationship between changing gas prices and foreign policy is not so closely tied that small changes in price lead to changes in foreign policy cooperation. The graph depicted Russia's foreign policy as becoming generally less cooperative over time, although there was not an observable change based on short-term swings in price. Thus, at a minimum, this paper's research has identified a plausible relationship between the price of natural gas and Russia's cooperation on foreign policy issues. The two case studies suggest that

while Russia's natural gas supplies are a consideration for Russia's policies towards Iran, its history with Kosovo and concern about losing its influence over Georgia trumps any influence natural gas has on Russia's cooperation over Kosovo's independence bid.

Taken together, the combination of the sub-hypotheses shows that the changing price of gas has some influence over Russia's foreign policy cooperation, but it does not necessarily affect Russia's behavior on core issues. The Kosovo case study did not support the hypothesis because Russia's behavior did not become less cooperative as gas prices rose—it stayed consistently uncooperative. Russia, however, could have become more hostile by taking military action against the Kosovo government, fomenting an uprising among Kosovo's Serbian population, or using the UN Security Council to push for sanctions against Kosovo. While natural gas may contribute to shaping Russia's overall foreign policy strategy, Russia may approach some discrete issues without consideration of other external factors—such as a change in the price of natural gas. Hence, Russia saw utility in exploiting Kosovo's bid for independence as a pretext to retain influence in Georgia. Natural gas alone probably was less of a factor in its strategy.

First Alternate Explanation: Russian hostility a reaction to Western imperialism?

Despite the strengths of the methodology, there are several alternate explanations for Russia's behavior towards its European customers between 2003 and 2007. One alternative explanation is that Russia's increasingly hostile foreign policy resulted from its politicians' response to anti-western sentiment among Russia's domestic public opinion. Some analysts suggest that the Russian public perceives the

liberalization of Russia's economy and the democratization of its government in the 1990s as a failed experiment that brought chaos and weakened Russia.⁸⁶ Richard Pipes, for one, points to opinion surveys that overwhelmingly show a rejection of western values.⁸⁷ Seventy-eight percent of Russians agreed that democracy is a fraud, and 52 percent said democracy did more harm than good, while only 18 percent said it did more good than harm.⁸⁸ Pipes also notes that 78 percent of Russians want their country to be a great power, and two-thirds view themselves as being surrounded by enemies.⁸⁹ "People's identification with strong government—at home and abroad—is a central part of this effort," he concludes.⁹⁰ The argument that Putin and other politicians were heeding the wishes of their constituents has merit. Russia's foreign minister in 2004 said Russia had longstanding concerns regarding EU enlargement that Europe had not addressed.⁹¹ Russian beliefs certainly contribute to Russia's hostile foreign policy towards the United States, NATO, and Europe. Thomas Carothers argues that Russia's hostile foreign policies were a way for Putin to portray his "authoritarian project to Russians as a defense of the country's national security."⁹²

However, Pipes' argument does not fully explain why Russia's foreign policy changed during this decade. According to Pipes, Russians have held similar beliefs to

⁸⁶ Including Richard Pipes and Thomas Carothers, whose articles are discussed and cited below.

⁸⁷ Richard Pipes "Flight From Freedom: What Russians Think and Want," *Foreign Affairs*, Foreign Affairs section, May – June 2004.

⁸⁸ Pipes "Flight From Freedom: What Russians Think and Want," *Foreign Affairs*, May – June 2004.

⁸⁹ Pipes "Flight From Freedom: What Russians Think and Want," *Foreign Affairs*, May – June 2004.

⁹⁰ Pipes "Flight From Freedom: What Russians Think and Want," *Foreign Affairs*, May – June 2004.

⁹¹ "Russia Minister of Foreign Affairs Igor Ivanov Interview with the newspaper Izvestia," February 27, 2009, <http://www.great-britain.mid.ru/pressrel/pres4-04.htm>

⁹² Thomas Carothers, "The Backlash Against Democracy Promotion," *Foreign Affairs*, Essay section, March-April 2006, pp. 55.

those expressed in the polls for hundreds of years. "Russia is a remarkably conservative nation whose mentality and behavior change slowly, if at all, over time, regardless of the regime in power."⁹³ Thus, while Russian culture did not observably change, the price of gas did, suggesting it is a more plausible explanation for Russia's changing levels of cooperation on foreign policy issues. While Carothers cites encroaching NATO influence as one explanation for Russia's increasingly belligerent behavior this decade, his argument does not acknowledge the tools available to Russia to enforce its policies.⁹⁴ Natural gas gave the Russia the capacity to be less cooperative with its customers. Had parts of Europe not become increasingly reliant on Russia's natural gas, or if the Russian state had less control over its gas sector, it almost certainly would have been less capable of opposing European interests.

Second Alternative Explanation: Putin as singular, aggressive leader?

This paper has argued that Russia's foreign policy has been driven primarily by the state and sub-state actors (Gazprom and the energy industry). But some academics probably would argue that key individuals in the Russia state—most notably Vladimir Putin—actually were the primary drivers of Russian foreign policy. Daniel Byman and Kenneth Pollack have argued that "Most political scientists, when pressed, will admit to the importance of personal idiosyncrasies and human error in determining the course of international relations."⁹⁵ Byman and Pollack undoubtedly would include Putin as critical to shaping international affairs in Russia and Europe in the last decade. There is

⁹³ Pipes "Flight From Freedom: What Russians Think and Want," *Foreign Affairs*, May – June 2004.

⁹⁴ Carothers, "The Backlash Against Democracy Promotion," *Foreign Affairs*, pp. 55.

⁹⁵ Daniel Byman and Kenneth Pollack, "Let Us Now Praise Great Men," *International Security*, Vol. 25, No. 4 (Spring 2001), pp. 108.

evidence to support this idea. Russia expert Marshall Goldman has claimed Russia's economy would have looked "very different" without Putin.⁹⁶ It also is worth remembering that Putin's thesis outlined Russia's strategy to exploit its energy resources to support the state's interests.

The question, then, is whether Putin exerted more influence over Russia's changing foreign policy than natural gas prices. There is no clear answer to this question, and both conditions probably were necessary to prompt the change in Russia's cooperation with its European customers. Still—the Russian leader did not change, but the price of gas did. Russian foreign policy under Putin was generally cooperative with European customers in 2003, as demonstrated by its cooperation with Germany and France in opposing the Iraq war, its willingness to work with the EU3 towards disarming Iran, and its economic agreements with European countries. Russia became observably more hostile after European economic expansion led them to demand more gas, causing European consumers to be more vulnerable to Russia. Additionally, without the rise in natural gas prices, the state would have generated far less revenue and Putin almost certainly would have been far more limited in implementing his "national champion" program.

Opportunities for Future Research

Further study could provide more insight into the impact the changing price of natural gas has on Russia's foreign policy. There are several ways future researchers

⁹⁶ Marshall Goldman, quoted at an event at the Kennan Institute and the Global Energy Initiative at the Woodrow Wilson Center, June 2, 2008, http://www.wilsoncenter.org/index.cfm?topic_id=1424&fuseaction=topics.event_summary&event_id=408132

could build on this paper's assessments. A sustained price drop should present opportunities to test whether Russia became more cooperative with its customers as the price of gas decreased. If Russia increased its portion of cooperative foreign policy initiatives with its customers as the prices at which it sold its gas dropped, that would strengthen the assertion that there is a correlation between natural gas prices and cooperation on foreign policy. The longer period of time examined, the stronger the assertion.

This paper focused exclusively on Gazprom because of its monopoly over gas exports and because, as noted, it is inextricably linked to Kremlin insiders, some of whom sit on the company's board. Future research could examine hydrocarbon companies which also are international and linked to the Kremlin. For example, the Russian state owns 75 percent of Rosneft, an oil company.⁹⁷ Russia's foreign policy may be linked to Rosneft's profits and influence just as it correlates to Gazprom's. International business investors and other European states also probably view these companies' activities as representing Russian foreign policy, just as they view Gazprom as representing the Kremlin's interests.⁹⁸

Another way to build on this research is to test other related metrics. A useful comparison might include fluctuations in Gazprom's share price with Russia's foreign policy initiatives. As this paper has argued, Gazprom currently is Russia's primary

⁹⁷ Andrew Kramer, "Rosneft Wins Yukos Stake in 4-Minute Sale" *New York Times*, March 28, 2007, World Business section,

<http://www.nytimes.com/2007/03/28/business/worldbusiness/28yukos.html>

⁹⁸ Alison Smale, "Money Talks at Russian Forum as Business Leaders See Past Hurdles to Investing," *New York Times*, June 9, 2008, Europe section,

<http://www.nytimes.com/2008/06/09/world/europe/09petersburg.html>. For information on Rosneft's sales and importance to Europe, see, for example, "Gazprom, Rosneft Say Europe to Remain No. 1 Customer," *Reuters*, September 12, 2009, <http://www.reuters.com/article/rbssOilGasExplorationProduction/idUSLC30565220090912>

national champion, its revenues comprise a disproportionate share of Russia's GDP, and its strength is an indicator of Russia's state strength. A share price is the market's best measurement of company's success—in the case of Gazprom, it would reflect both the company's earnings in the preceding year as well as forecast whether the company would grow or shrink. (For example, despite record earnings in the preceding year the share price may drop if investors believed Gazprom is running out of natural gas reserves to exploit.) Therefore, the share price of Gazprom—or other state-owned energy companies—could be a rough indicator of Russia's state power. The findings of that research could strengthen the argument that the price of natural gas correlates to cooperation on foreign policy issues. This paper does not quantify the strength of the correlation between rising natural gas prices and Russia's lack of cooperation on foreign policy issues. Future researchers could locate additional quantitative data to run a statistical analysis of the relationship between foreign policy and the price of natural gas.

Chapter 5: Policy Implications and Recommendations

Russia Likely to Remain Uncooperative, Europe Likely to Remain Dependent

This research has several policy implications for Europe and Russia. The first is that Europe's lack of energy independence—its dearth of other sources of natural gas and its inability to replace natural gas with other types of energy—will enable Russia to remain a generally uncooperative partner on foreign policy as long as gas prices do not drop significantly. As long as prices remain high, Russia probably will continue to act assertively in foreign policy matters if it judges its sphere of influence is threatened by European interests. Russia also almost certainly will continue to use its natural gas

supplies as an instrument of its foreign policy, to include rewarding its friends with cheaper gas contracts and punishing its rivals with higher prices and other threats. The Commission of European Communities has underscored Europe's perilous position. "One quarter of all energy consumed in the EU is gas. 58% of this gas is imported. Of this, 42% comes from Russia, and around 80% of EU imports of gas from Russia pass via Ukraine. Among the 8 new eastern European Member States, dependence on Russian imports averages 77%."⁹⁹

A second implication is that Europe is likely to remain over-reliant on Russian natural gas for the foreseeable future. There are few immediate steps that the West can take to become less dependent on Russian hydrocarbons—even now the European Commission notes that "a number of shortcomings still exist in progress towards a truly open gas market."¹⁰⁰ Some countries are seeking energy supplies from other sources while attempting to develop new infrastructure to bypass Russia—but these projects are inevitably slow and costly.¹⁰¹ The associated infrastructure with new energy sources are years away from replacing natural gas. Liquefied natural gas currently is not a viable option—the infrastructure required to ship and store liquefied natural gas is enormously expensive to build and it would take many years before European consumers would have the capacity to store more than a few days' supply.¹⁰² For the next few years at

⁹⁹ Commission of the European Communities, "The January 2009 Gas Supply Disruption to the EU: An Assessment," July 16, 2009, pp. 3,

http://ec.europa.eu/energy/strategies/2009/doc/sec_2009_0977.pdf

¹⁰⁰ European Commission "Gas and Electricity: What Do We Want to Achieve?"

http://ec.europa.eu/energy/gas_electricity/index_en.htm

¹⁰¹ European Commission, "Gearing Up for Gas Emergencies," July 16, 2009,

http://ec.europa.eu/news/energy/090716_en.htm; and Goldman, Petrostate pp. 181-183.

¹⁰² Ian Cronshaw, International Energy Agency Analyst, "Europe Charts New Gas Future," *BBC.com*, January 27, 2009, <http://news.bbc.co.uk/2/hi/7852145.stm>

least, European consumers will be unable to extricate themselves from an overreliance on Russian natural gas.

Global Financial Crisis Has an Upside for Europe

Still, from the European perspective, there is an upside resulting from the global financial crisis. As European economies have stopped growing, demand for Russian natural gas also has dipped and prices in 2008 were roughly at the same level as they were in 2005.¹⁰³ Additionally, the Kremlin invested disproportionately in natural gas and oil to the detriment of its other sectors.¹⁰⁴ As the rising price of natural gas led to a relative rise in value of the ruble, Russian domestic manufacturing became less profitable because its goods were relatively too expensive on the world market—essentially a form of the Dutch Disease.¹⁰⁵ This has two implications. For one, Russia is now reliant on its natural gas (and oil) sector for its economic health, just as European consumers are reliant on Russia's natural gas. This potentially improves Europe's bargaining position in future negotiations. Second, Russia's weakened economy could at least temporarily reduce its capacity to use its gas to project its interests abroad.

¹⁰³ Burbansky and Elinevskay, "Oil and Gas Yearbook, 2009: Barrels of Burden," pp. 152-154.

¹⁰⁴ For example, the *Journal of Energy Security* expects lower hydrocarbon prices to severely damage the Russian economy. "In an economy where approximately 25% of GDP is generated by the oil and gas sectors, with over 50% of all Russian exports oil and gas related and with 50% of federal government revenue dependent on these exports, global negative pressure on oil and gas prices is dire news for the overall Russian economy and even more so for Russia's energy industries. See "Kevin Rosner, "Russia's Financial Market Meltdown: Energy Security Implications," *Journal of Energy Security*, December 14, 2008, http://ensec.org/index.php?option=com_content&view=article&id=168:russias-financial-market-meltdown-energy-security-implications&catid=90:energysecuritydecember08&Itemid=334

¹⁰⁵ Goldman, *Petrostate*, pp. 12. "Dutch Disease" is an economic phenomenon where the discovery of one exportable resource—in Russia's case, natural gas—leads to a rise in the domestic currency, making the country's other exports more expensive and thus less competitive in international markets. For further information see Christine Ebrahim-Zadeh, "Back to Basics," *International Monetary Fund*, March 2003, Vol.40, Number 1, <http://www.imf.org/external/pubs/ft/fandd/2003/03/ebra.htm>

Russia may be less willing to cut off natural gas supplies to neighboring countries because temporarily losing that revenue will be more painful when the price of gas is low and its economy is struggling.¹⁰⁶

Implications of Russia's Reliance on Revenue from Natural Gas

Because Russia is disproportionately reliant on the revenue from its hydrocarbons, some opportunities may exist for European consumers. For example, European consumers could enhance Russia's dependence on western technology and potentially improve the European negotiating position with Russia on gas contracts and foreign policy. Russia may need to open up its economy to more foreign investment, especially if Gazprom continues to struggle to find new oilfields or lacks the technology to extract oil and natural gas in some difficult areas.¹⁰⁷ European consumers could offer Russia some technology and cooperate with Russia to explore new gas fields, if Russia is willing to tolerate more foreign investment. While none of these factors would necessitate a radical change in Russian foreign policy, Russia's need for foreign investment could moderate some of more aggressive initiatives.

¹⁰⁶ However, Russia did again cut off Ukraine's supply of gas in January 2009. See "Russia 'Ready' to Resume Gas Flow," *BBC.com*, January 12, 2009, <http://news.bbc.co.uk/2/hi/europe/7822694.stm>

¹⁰⁷ Gazprom's ability to find new gas- and oilfields declined as Putin filled Gazprom's corporate board with his allies, some of whom have no experience in the industry. Gazprom also lacks the technology to extract gas from certain areas of Russia. See Andrew Kramer, "Gazprom, Once Mighty, Is Reeling," *New York Times*, December 29, 2008, http://www.nytimes.com/2008/12/30/business/worldbusiness/30gazprom.html?_r=1&scp=3&sq=gazprom%20developing%20new%20fields&st=cse

Policy Recommendations

Because several European countries will be disproportionately reliant on Russian gas for the foreseeable future, Europe's best option in the near term is to continue pressuring Russia to be a more reliable supplier of energy. If Russia threatens to cut off gas supplies, European consumers should speak with one voice in condemning Russia. European consumers also should emphasize to Russia that it is in Russia's interest to improve its reputation as a reliable energy provider, and that its pipeline politics undermine its credibility. In addition to diplomacy, Europe should take several steps to secure greater energy independence from Russia over the long term.

First Policy Recommendation: Develop a Common Energy Strategy

Over the longer term, European leaders can take several steps to gradually reduce Europe's reliance on Russian gas. First, Europe needs a common energy policy. Thus far, the European Union has noted its need for greater energy independence and said that the Nabucco pipeline is critical to that effort, but the European Union has not generated a unified strategy.¹⁰⁸ Only one part of the Nabucco pipeline has been built so far, and the pipeline will not be operational for at least a half-dozen years.¹⁰⁹ This

¹⁰⁸ Commission of European Communities, "An Energy Policy for Europe," *Communication from the Commission to the European Council and the European Parliament*, October 1, 2007, pp. 9 and 25, http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0001en01.pdf. This document makes several broad recommendations for Europe, but most European consumers of Russian gas have tended to pursue their own interests rather than cooperating. See Goldman *Petrostate*, 149-169.

¹⁰⁹ The Nabucco pipeline project is a European-led initiative that intends to diversify Europe's natural gas supply by importing natural gas from the Caspian region, the Middle East, and Egypt. Currently, Nabucco is expected to be operational no sooner than 2014. For details on the Nabucco pipeline project, see: "Nabucco Gas Pipeline Project," <http://www.nabucco-pipeline.com/>. See also Owen Matthews, "Russia's Big Energy Secret," *Newsweek*, International Edition, January 7, 2008; Nabucco Pipeline Project website "Project Timeline," <http://www.nabucco-pipeline.com/project/project-timeline/main-page-project-timeline-20090126.html>

extended timeline, along with the lack of a common European energy strategy, has allowed Russia to take steps to ensure continued Russian dominance of the European natural gas market. Russia persuaded Hungary to support the Russian alternative to Nabucco by exploiting Hungarian fears.¹¹⁰ Hungarian leaders claimed it was dangerous to wait on a common European energy policy when it needed an immediate solution to its energy demands.¹¹¹ The Russian-Hungarian agreement could delay completion of the Nabucco pipeline.¹¹²

The lack of a common European energy policy also prevents investment in a new natural gas pipeline. For countries or private companies to make the enormous financial investment in new pipelines, the pipelines need to be profitable. Because Europe lacks a common energy strategy, private industry refrains from investing because it fears Russia will be able to persuade a transit country to support the Russian alternative with promises of cheaper gas.¹¹³

Europe—particularly those countries that consume significant quantities of Russian natural gas—therefore must agree on a common energy strategy to eliminate many of the challenges it faces in building and investing in new natural gas pipelines and other infrastructure. A common energy policy also is likely to reduce Russia's ability to strike bilateral deals that undermine energy projects such as the Nabucco pipeline.

¹¹⁰ Goldman, *Petrostate*, pp. 155.

¹¹¹ Goldman, *Petrostate*, pp. 155.

¹¹² Vladimir Socor, "Hungary Doubling Efforts Ahead of Budapest Summit," *The Jamestown Foundation*, December 12, 2008,

[http://www.jamestown.org/single/?no_cache=1&tx_ttnews\[tt_news\]=34265](http://www.jamestown.org/single/?no_cache=1&tx_ttnews[tt_news]=34265)

¹¹³ Goldman, *Petrostate*, pp. 155.

Second Recommendation: Leverage the Free Market

A second step Europe could take to improve its gas independence is to take advantage of the free market. As part of this effort, Europe should encourage diversified foreign investment in its own natural gas industry and promote new technologies that will enable it to extract gas from currently inaccessible areas. For example, the *New York Times* has cited a new technology developed in the US that allows extraction of natural gas from shale.¹¹⁴ This new technique could help to reduce Europe's reliance on Russian natural gas (Exxon-Mobile already has dug exploratory wells in Germany).¹¹⁵ European leaders should support multinational firms' efforts to discover new shale fields in Europe, while also encouraging their own scientists and geologists to learn new drilling techniques. At the same time, Europe should refrain from creating protectionist laws to improve its energy independence. After Russia cut off Ukraine's gas in 2005, Europe attempted to put into law limits on Gazprom's pipeline expansion.¹¹⁶ These laws probably are not Europe's best method to counter Gazprom's expansion as they could spark a tit-for-tat economic feud and prompt Russia to punish European countries by, for example, banning certain European imports or negotiating a higher price for gas sales.

¹¹⁴ Clifford Krauss, "New Way to Tap Gas May Expand Global Supplies," *New York Times*, October 9, 2009, Energy and Environment section, http://www.nytimes.com/2009/10/10/business/energy-environment/10gas.html?_r=1&adxnnl=1&emc=eta1&adxnnlx=1255384855-g8LiyVQQEsDbOlP04egvw

¹¹⁵ Krauss, "New Way to Tap Gas May Expand Global Supplies," *New York Times*, October 9, 2009.

¹¹⁶ Neil Buckley and George Parker, "EU Meeting 'Persuaded Putin to Sign Chinese Gas Deal'" *Financial Times*, April 27, 2006, Europe section, pp. 2.

Third Recommendation: Consider Alternative Sources of Energy

A third step in Europe's strategy should consider other alternative sources of energy. Although France receives a higher proportion of its natural gas from Russia than Germany, France generally has been less concerned about the reliability of Russian supplies because a greater portion of France's energy supply comes from nuclear plants.¹¹⁷ Europe also should support efforts to improve its liquefied natural gas infrastructure to support imports and create at least a short-term emergency supply in the event that Russia cuts off the supply of gas to a transit country in the future. Adding urgency to this form of energy is Russia's plan to obtain greater control of the liquefied natural gas market. Gazprom claims it "is planning to boost the volumes of spot trading and to develop mid-term gas swap operations and develop mid-term operations on swap of pipeline gas for LNG in Europe" along with its goal of controlling up to 25 percent of the global LNG market.¹¹⁸ Europe should thus expect Russia to work to maintain its dominance over European energy supplies, and take steps wean itself off of Russian natural gas.

Conclusion

Acknowledging the importance of Russia's energy industry, particularly its natural gas sector, is critical to understanding the change in Russia's foreign policy cooperation with European customers of its natural gas. Thus far European leaders have failed to

¹¹⁷ World Nuclear Association, "Nuclear Power in France," <http://www.world-nuclear.org/info/inf40.html>; and "Russian Gas Supplies to France Cut by 70 percent," *Reuters*, January 6, 2009, <http://www.reuters.com/article/ELECTU/idUSL660948720090106>

¹¹⁸ Roman Kupchinsky, *Russian LNG – The Future Geopolitical Battleground*, Jamestown Foundation, Washington, DC, 2009; and "Strategy for the Power Industry," Gazprom.ru at <http://www.gazprom.com/strategy/energetics/>

take the necessary steps to free their countries from the grip of Russian natural gas, suggesting they have not acknowledged the urgency of their circumstances. If Europe and its allies—to include the US—want to better manage their relationship with Russia, they will need to better understand the link between Russia's energy sector and its foreign policy. This issue of Russian energy probably will continue to receive a large amount of attention in media, especially as Russia reemerges as an international power. Understanding drivers of Russian strategy will help other countries predict and prepare for Russia's foreign policy initiatives.

Ideally, this paper will help generate increased study of the link between Russian energy and its foreign policy. This thesis depicted Russia's overall trends in foreign policy cooperation between 2003 and 2007 while closely assessing two case studies showing Russia's cooperation on specific foreign policy issues. The methodologies used in this paper can be easily replicated. Most of the data are widely accessible. More study of the impact of natural gas on Russian foreign policy as part of a larger set of motivations should help to clarify Russia's strategy and intentions for its future relations with Europe. As Western European countries begin to recover from the world economic recession and resume growth, their demand for Russian natural gas surely will increase, once again making Europe dependent on Russian energy for its own prosperity. Until Europe develops a new energy policy, this dependence probably will persist. Russian leaders have shown they intend to protect their natural gas monopoly. Unless European leaders plan appropriately, they will continue to find themselves subjected to Russian foreign policy whims well into the future.

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Appendix A: Citations for Graph

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