Introduction

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Given Australia's lack of energy security strategy, it is not surprising that the country is void of institutional knowledge and know-how of Russian foreign energy strategy. The 'lucky country' as it were, relies entirely on sea lines of communication to the north to supply fuel and to export Australian coal and natural gas. Australia has entered the 2020s as the world's largest liquefied natural gas (LNG) exporter; however, maintaining complacency in Canberra's current export activities will ultimately lead to a long-term security crisis. Australia lacks institutional insight into Russian energy interests in Canberra's prime energy market—the Asia-Pacific. This book seeks to fill this knowledge gap by providing policymakers, academics and tertiary-level students with up-to-date insight and analysis of Russia's foreign energy strategy in the region. By comparing and contrasting this to Australia's energy security over-reliance throughout the Asia-Pacific region (APR), this book highlights serious energy security concerns on the not too distant horizon.

The concept of energy security is an age-old challenge for national strategy and, for Daniel Yergin, it consistently elicits 'new answers'.[1] A constantly evolving issue, energy security is shaped by both internal state forces and external international ones. With an array of definitions and priorities, most experts at least agree on the fact that global energy demand is continuing to increase in step with dwindling *known* supplies of existing energy resources. Put simply, 'easy access' to 'known' or 'proven' energy reserves (namely hydrocarbons—oil and natural gas) is getting harder. Existing wells are dry and explored energy frontiers are in technically challenging and financially prohibitive spaces, such as the

1 Daniel Yergin, 'Ensuring Energy Security', *Foreign Affairs*, March/April 2006, doi.org/10.2307/20031912.

offshore Arctic Ocean. Some of the 'new answers' to this challenge include renewable energy sources and the development of non-traditional energy ventures. While there are various definitions of energy security, common components include:

- secure, uninterrupted supply of energy resources
- secure, forecasted demand of energy resources
- safe, environmentally sound energy sources
- diversity of energy supply and demand
- efficiency of energy supplies.

In a constructivist sense, a state's energy security is what the state in question makes of it. Resource-export intensive states like Australia, in theory, ought to be diversifying and securing their energy export market and working to bolster sea lines of communication to secure their oil import needs. Therefore, an added element to an Australian energy security strategy would incorporate an understanding of changing consumption patterns in the targeted export market. Energy security is akin to a coin—it has two equally important and weighted sides. While Australian energy exports are breaking new records and, on face value, look promising, exports are predicated on secure customer or market demand. Australia may be rich in LNG reserves and export potential, but if the customer base and market are supplied elsewhere, or our exports are unable to reach market destinations, the entire energy security paradigm is impacted. Conflict in the South China Sea would indeed threaten Australia's sea lines of communication and may delay LNG exports from reaching Asian clients, thus eroding Australia's ability to ensure supply security to customers, who then necessarily look to other supply avenues and diversify away from Australian gas and coal.

Australia has continued to 'dodge' accountability in terms of energy security concerns. Void of a national energy security strategy, it may be the case that Canberra is set to learn the necessity of having an energy security policy the hard way—via regional shocks and their domestic economic knock-on effects.

This book critically examines Russian energy strategy in the Asia-Pacific with a view to determining the security implications for Australia. Of course, Russia is important for global energy security chains because of its vast resource wealth and its geographical position—a pivotal position to supply both the European and Asian markets. Geographically

constrained as an island continent, Australia has no such luxury. Canberra relies on the nearby Asia-Pacific import market to demand our energy and to facilitate the delivery of our national oil supplies.

Russia ranks among the world's leading countries in terms of reserves in all three primary energy spheres: natural gas, coal and oil. Traditionally, European and former Soviet Union markets have absorbed the bulk of Russian energy exports. However, the rise of China and India, along with the advent of LNG, have seen the Asia-Pacific market emerge as the centre of gravity for future energy demand. In a few short years, the US managed to flip their energy reliance around to be a net exporter of LNG. Washington too has increasingly targeted the Asia-Pacific gas market. These geopolitical shifts in energy markets will have long-term implications for Australia's LNG export 'dream'.

This book comprises four sections with chapters contributed by some of the world's leading Russian energy scholars. An overview of the Asia-Pacific energy outlook, including energy security trends in the region, is first provided. Drivers for Russian strategy in the region are also explored. Next, Russian foreign energy strategy and the role that Moscow's quest for great power plays in energy policy under Putin are discussed. It then tackles the implications of Russian aggression in 2014 on the Crimean Peninsula in terms of how the events have shaped Russian foreign energy strategy.

Part 1 examines the broader Asia-Pacific energy outlook. There is a strong market for natural gas in the Asia-Pacific. Both the production and consumption levels of LNG have increased dramatically in recent years and are expected to continue to grow. China, Japan and South Korea, in particular, are leading consumers of energy and rely heavily on foreign energy imports. Russia has shown intense LNG ambitions through its export strategy to increase its export capacity of LNG by 400 per cent by the mid-2030s. Of course, success is contingent on the realisation of Russia's Arctic region gas projects and the continued cooperation of key Asian partners like China. The US is also placed to increase LNG exports in the region following the domestic shale gas revolution.

However, global political factors are increasing the uncertainty of energy security in the APR. For example, in the face of a protracted US–China economic 'war', China may wish to increase energy imports from Russia, rather than from the US. Here, Russia has identified the opportunities for LNG exports to Asia and has shifted its focus away from Europe and

into the Asian region. While Russia's energy exports to Europe have been used before as political leverage (e.g. various instances of supply cuts to Ukraine), it is expected that gas trade between Russia and Asia will remain largely unpoliticised.

Shoichi Itoh opens Part 1 with a study of the Asia-Pacific energy outlook, focusing on the reality that global energy demand has increasingly shifted towards the Asia-Pacific. Market dynamics in the region are investigated and the threats and opportunities associated with the concentration of economic growth in the Asia-Pacific is examined. The chapter ends with an assessment of the APR as host to the new great energy game—the role of LNG in the emerging Asian market. Itoh highlights the fact that Australian, US and Russian LNG export interests compete in the Asia-Pacific theatre and this market competition is only set to increase into the future.

Morena Skalamera presents a study of Russia's foray into the Asia-Pacific energy market. The emergence of US shale upended global energy markets and created a dual challenge for Russia; in oil, it suppressed long-term prices with potentially devastating consequences for the country's budget. For natural gas, the shale gas revolution created a new rival in the increasingly competitive LNG market. While Russia anticipated European demand decline, Moscow began to turn to the East—towards the Asia-Pacific market. Skalamera argues that 2014 was a turning point in the pace of this pivot to Asia, wherein, following Russian action on the Crimean Peninsula, Western sanctions upended Russia's energy strategy in various ways. China became a crucial part of Moscow's ability to lessen the impact of Western sanctions, as it presented an alternative market and source of capital.

In the past few years, Russia has diversified this pivot within the Asia-Pacific to avoid an increasing over-reliance on China. Moscow's push to be a major LNG exporter is on track. However, Skalamera notes that Moscow might not be able to replicate the unusually strong hold it enjoys over European gas markets. For Australia, this means Russian energy exports will no doubt shape the Asia-Pacific market and this reality presents a potential hinderance to Canberra's long-term energy export strategy.

Part 2 delves into Russian foreign energy strategy and the question of what role energy plays in Russia's grand strategy. There are continuing debates as to whether Russia has a grand strategy in relation to its use of energy security. Some argue that Russia's policies since the mid-2000s have shown elements of a grand strategy. What is clear is that Putin is an exceptional opportunist and has sought to maintain Russia's survival and ensure its political, economic and military power. As such, energy is used by Russia as a key tool to achieve the realisation of its grand strategy. The Asian energy market provides Russia with a wide range of strategic relationships, an ability to limit Western influence and also significant economic stimulation. However, these opportunities for Russia in Asia are met with numerous challenges.

Bilateral energy cooperation has been central to the development of the broader Sino-Russian relationship under Putin. Of course, this partnership is merely one of strategic convenience, rather than an example of authoritarian cooperation. Russia has increased its focus on the Asian energy market to improve Moscow's political leverage to offset some of Beijing's political dominance. Increasingly, Russia is also seeking Chinese capital for its Russian Arctic energy projects. Yet, China also needs Russian energy sources to fuel its own projects, such as the Belt and Road Initiative. China wants to increase Russia's dependence on it as a buyer as a tool to control prices. Further, Beijing seeks access to the 'Polar Silk Road' that runs within the Russian Arctic Exclusive Economic Zone.

Overall, Russian energy firms have a clear Asia-Pacific strategy and, by extension, given the state-controlled nature of these entities (Gazprom and Rosneft in particular), Moscow has clear ambitions for the region. Rosneft, Russia's oil giant, has had success in China with pipeline infrastructure, namely the Power of Siberia, which facilitated Moscow in becoming the largest exporter of crude oil to China. Russia's LNG sector has been slow to improve its energy infrastructure projects; however, projects within the Russian Arctic have proliferated. These new Russian energy projects are key to Russia lifting its LNG revenue from Asian markets. Of course, China is expected to be the price setter moving ahead, given its huge consumption of LNG from a wide variety of sources.

Jakob Godzimirski outlines the ways in which energy is both central to the Russian economy and Moscow's grand strategy in providing the country with an important external leverage. In 2018, the energy sector represented 20 per cent of the country's GDP, and generated 45 per cent of budget

revenue and 60 per cent of Russia's export revenue. This narrative is not new. Energy played an important role in Russia's strategy both before the collapse of the Soviet Union and in the post-Soviet period. Beyond the capital flows, energy has been used as a tool to help Russia establish long-term strategic relations with countries to which energy resources have been exported.

Although there is no agreement among Russian nor Western experts on whether the current Putin regime has a consistent long-term grand strategy or conducts mostly a reactive, opportunistic policy, it is widely accepted that Russian energy resources play an important part in Russian strategic designs today. Godzimirski's chapter illustrates how revenue generated by production and trade in energy resources have allowed critical investments and increases in defence spending to be made, which in turn has helped Russia re-establish its position as an important regional and global player. Energy (i.e. holding the world's largest hydrocarbon resource deposits) has also assisted Moscow to act as an agenda setter, which is one of the hallmarks of Russia's grand strategy under Putin.

It is useful to view Russian energy resources from a strategic perspective. As Godzimirski notes, energy is largely facilitating the achievement of other strategic goals for Russia, for instance, the re-establishment of Russia's position as a great power. Energy is employed as an instrument to help Russia project its economic and political power to areas that depend on energy supplies coming from Russia. Increasingly, energy resources play an important role, securing the stability and survival of the current Putin regime as a result of the financial windfalls that oil and gas garner.

The popular Russian 'pivot to Asia' became even more apparent following the 2014 crisis in Ukraine that resulted in Western sanctions, Russian countersanctions and the worsening of ties between Russia and the West. Moscow's pivot to Asia has included a focus on strengthening energy relations between Russia and its key Asian partners such as China, India, South Korea and Japan. However, for the time being, Russia's position on the Asian energy market is relatively weak: in 2018, Russia exported 34 per cent of its crude oil to Asia, but this represented only 8 per cent of oil imports to Asia; 16 per cent of Russian export of petroleum products went to Asia, but they represented only 6 per cent of the overall import to Asia; 69 per cent of Russian LNG export (17.2 bcm) went to the Asian market, but this represented only 5 per cent of LNG imports to this area and only 2.1 per cent of the gas consumption in the APR. The situation in

the natural gas sector shifted in 2019 when the Power of Siberia pipeline started supplying piped gas to China, strengthening Russia's position in the Chinese and Asian market.

An important strategic change is also the increase in investment in Russian strategic energy projects made by Asian states. In particular, China and India support these projects through providing funding and some technological solutions. Godzimirski argues that this trend will likely continue for years to come, helping Russia diversify not only markets but also partnerships and thus interdependencies. Russia's energy interdependencies present challenges to Moscow's overall grand energy power strategy. There are questions over whether Russia remains an 'energy superpower' post events on the Crimean Peninsula in 2014. Russia's over-reliance on energy revenue has hurt Putin's reputation domestically and internationally. Russia's energy rents have resulted in increased military spending and also the consolidation of oligarchical power. This makes long-term security outlooks problematic. Climate change also poses challenges to Russia as the country has no direct policies in place to promote renewables beyond nuclear power and hydropower.

Peter Rutland presents an analysis of the post-Crimea 2014 implications on Russia's energy 'superpower' quest. In the 2000s, analysts started talking about Russia as an 'energy superpower'. A top three global producer of oil and gas, Russia seemed willing to use energy sales as a lever to exert influence over neighbouring countries. However, after 2008 the situation changed, and worries about Russia as an energy superpower have receded. Since 2008, Russia has been willing to use hard power to advance its interests—through military intervention in Georgia (2008), Ukraine (2014) and Syria (2015). These actions achieved Moscow's immediate goals. Russia's success in part was due to the fact that Putin has tripled military spending in real terms since 2000. Putin has also rattled the nuclear sabre, investing in new weapons and more aggressive deployment of existing weapons. These hard power actions posed a more immediate threat to the security of other countries than vulnerability to disruptions in Russian energy supplies, which could easily be insured against through investment in diversification of supplies.

Rutland delves into the domestic climate, in which Putin increased the concentration of political and economic power in the hands of his inner circle. This group of 'oligarchs' benefited from much of the energy rents. As such, Rutland argues that, over time, Russia has exhibited more of

the characteristics of a 'petrostate': corruption, authoritarianism and decreasing economic competitiveness. And, further, that it is these features of the domestic political system that dominate Russia's image in the West.

At the same time, important shifts in global energy markets have weakened Russia's position in global energy markets. The rise of China as the world's largest energy importer has led Russia to start shifting its oil and gas exports to the Chinese market. However, the costs of developing fields and transport networks to feed the Chinese market are high, and Russia's bargaining position vis-à-vis China is weaker than with Europe. Likewise, the US fracking revolution has put a cap on global oil prices and has led to a halving of the global LNG price, cutting Gazprom's revenue stream. Overall, Rutland argues that Russia's capacity to wield the energy 'weapon' to advance its interests looks more questionable today than it did in 2008. The main geopolitical importance of energy when it comes to understanding Russia is its role in shaping the behaviour of the Russian power elite. There are some important feedback loops—both positive and negative—between the domestic political regime of the 'petrostate' and the aspirational international role as an 'energy superpower'.

Part 2 of the book closes with Keun-Wook Paik's study of Russian energy firms in the Asian market. Overall, the result of Russian firms entering into the Asia-Pacific market since 2000 is mixed—very positive results from the oil sector, and mixed results from the gas sector. Paik argues that the oil sector's performance was excellent based on the Eastern Siberia – Pacific Ocean (ESPO) pipeline completion in 2009. The ESPO pipeline played a key role in making Russia the biggest crude oil exporter to China in 2018, with a volume of 71.5 mt/y, more than Saudi Arabia's volume of 15 mt/y. The driving force behind this tangible result was Russia's state-owned company Rosneft. However, Russian firms in the gas sector's performance is mixed. Even though Gazprom started supplying Power of Siberia gas to northern China in 2019, it will take five years to increase the volume of supply to reach the target volume of 38 bcm/y. The two-thirds of Power of Siberia gas covering Heilongjiang, Jilin, Liaoning and Hebei province will not be affected by the competition from LNG supply, but the one-third of Power of Siberia gas will be quite vulnerable given competitive LNG pricing. A further challenge for Gazprom is whether and when the long-negotiated Altai gas line or a second Power of Siberia line can be introduced to China's Xinjiang Province during the first half of the 2020s.

Part 3 moves to examine Australian energy strategy and energy interests in the Asia-Pacific. An insight by a internal policy practitioner is provided by Vice Air Marshall (retired) John Blackburn. Reflecting on a career at the centre of fuel contingency planning, Blackburn presents a dire reality in his chapter on Australian energy insecurity. Australia does not have an energy security strategy and Canberra's fuel import dependency has grown to over 90 per cent since 2010. Australia's strategic fuel reserves are so low that a serious disruption in oil supply would lead to domestic market failure. For instance, tensions in the South China Sea could affect shipping routes and lead to disruptions in oil supply that would have national security implications for Australia. Blackburn argues that the topic of energy security in Australia is highly politicised when it should instead be addressed with nonpartisan political support.

Australia is the only International Energy Agency (IEA) member country that fails to meet its membership oil/fuel stockholding obligations. The IEA has also reported that Australia's stocks are at an all-time low, with the country having no strategic oil stocks (in country) and not placing any stockholding obligation on industry. Canberra's last National Energy Security Assessment (NESA) was published in 2011. The scenarios it used to assess Australian fuel security were inadequate for the risks faced in the APR, particularly with respect to the growing tensions in the South China Sea. As Blackburn notes, an updated NESA was due in 2015 but has not yet been produced, despite separate Senate and Parliamentary Joint Committee recommendations.

Despite the dire domestic energy security situation, Australia's energy exports to the Asia-Pacific are impressive. In 2019, Australia overtook Qatar to become the world's largest LNG producer. Akin to the Australian 'mining boom' of the 2000s, Australia's LNG revolution is threatened by Russian Arctic LNG and US LNG targeting the same Asian market. Another energy export sector in which Australia finds itself in competition with Russia is the coal sector. In his chapter, Stephen Fortescue presents an assessment of Russian coal export strategy in Asia. In 2017, Russia was the world's sixth largest producer behind Australia, which placed fourth, and the world's third largest exporter behind Australia, which placed first. Moscow has set ambitious targets out to 2030 to topple Australia's lead in the coal export industry. Fortescue argues that, while Russia's coal exports may increasingly be competitive with Australia, Russia's production costs are increasing and its labour productivity is still low. While it appears that Canberra will hold the competitive edge in the

coal export market, the coal market itself may wind down under global climate change movements and emissions targets. Indications of this precedent gaining momentum are evident in China's (the world's largest coal importer) plans to move away from its coal-intensive economy, thereby 'greening' its footprint.

Part 4 of the book considers the future of Russia's energy strategy in the APR. Maria Shagina presents an analysis of Moscow's adaptation strategy to the 2014 Western sanctions, predominantly applied to the energy industry. Shagina notes that, by design, Western sanctions do not limit the current supply of energy exported from Russia, but instead aim to raise costs for Russia to develop its long-term and technologically challenging projects. Most of these projects are located in the Russian Arctic region. For Shagina, the short-term effect of sanctions is modest at best, given Russia's oil and gas production is currently at record high levels. The ban on Western equipment and limited access to Western capital has negatively impacted Russia's capital-intensive offshore and shale gas projects that require advanced technology. However, in the long run, the impact may be more discernible.

Shagina argues that the combination of financial and technological sanctions will affect Russia's ability to maintain production volumes in the future. With the brownfields in Western Siberia gradually depleting, access to enhanced oil recovery technology will be crucial, yet it is currently denied by the sanctions. In Eastern Siberia, both financial restrictions and a ban on technology transfer will be critical for the development of new fields. As the majority of Eastern Siberian fields are underdeveloped, larger investments and advanced technology will be necessary for the exploration and development of resource deposits. Accelerated by Western sanctions, Russia's import substitution aimed to safeguard the country's economic and technological sovereignty. It was originally designed as a way to stimulate economic growth and competitiveness, but it has descended into selective protectionism with political undertones, favouring state-controlled firms in the capital-intensive sectors.

For Moscow, the pivot to Asia has proven to be an alternative energy market and source of advanced technology and financial support. However, Russian energy companies are becoming increasingly over-dependent on the Chinese market and Chinese equipment and services. In the long run, this over-reliance on China will be detrimental to Russia's local manufacturing, as Beijing's financial support often comes

with binding contracts. Japan and South Korea have been instrumental in supporting technologically and financially vital, yet not sanctioned, areas of the energy sector such as shipbuilding, LNG and nuclear power.

Tatiana Romanova's chapter unpacks the most recent Russian Energy Security Doctrine (ESD). While the 2019 ESD is a conceptual document with an opaque legal status, it nevertheless illustrates the Kremlin's priority energy plans. The ESD indicates that the Russian foreign energy policy sector will continue to be driven by geopolitical realities rather than purely market concerns. The doctrine also highlights the sceptical way in which Moscow continues to view clean energy. The ESD acknowledges that decreased energy demand as a result of Europe's clean energy and diversification strategy poses an economic challenge. At the same time, the broader climate change agenda is creating external political challenges. Debates within Russia following the ESD's release in 2019 focused primarily on this juncture—clean energy scepticism and fears of substantial energy rent revenue loses. On the role of the Asia-Pacific market in Russian energy export strategy, the ESD falls short of identifying Western sanctions and reduced European energy demands as the driving forces behind the pivot to the East. Instead, Moscow appears to be communicating that geographical diversification has been a hallmark of Russian foreign energy strategy for quite some time.

This volume fills a knowledge gap by boosting understanding of Russian foreign energy strategy in the region. Given the growing energy requirements in Australia's emerging Asia-Pacific arena that Russia may exploit, this knowledge is crucial. Further, given that Australia's own energy export strategy (primarily in terms of coal, LNG and uranium) relies heavily on the Asia-Pacific market, it represents a security challenge for Canberra. Traditionally, Russian foreign energy strategy has prioritised the European market. However, post-Ukraine 2014, Russia started to eye the Asian market and, in particular, China's energy requirements.

This book seeks to rectify the historical gender imbalance in security studies, particularly in the fields of energy security and Russian studies. It not only supports the research of young women emerging in the field but also incorporates early career researchers to reinvigorate the field of security studies. To the best of my knowledge, and in so far as there are no other books on the market that delve into Russian energy strategy in terms of the specific implications for Australia's foreign energy interests, this book is unique.

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