

# Chains of Value, Chains of Power: Russian Energy, Value Chains and the Remaking of Social Relations from Vladivostok to Brussels

## Between threat and temptation

### Projektbericht

Under the auspices of the Alexander von Humboldt Foundation, I was able to return to the Alfried Krupp Wissenschaftskolleg for a three-month stay (May-August 2018). My work in 2019 very much built up on the work I had conducted as a Fellow at the Wissenschaftskolleg in 2011-2012, when I completed two other books on energy and politics in the former Soviet world, *The Politics of Energy Dependency: Ukraine, Belarus and Lithuania Between Domestic Oligarchs and Russian Pressure* (Toronto: University of Toronto Press, 2013) and *Living the High Life in Minsk: Russian Energy Rents, Domestic Populism and Belarus' Impending Crisis* (Budapest and New York: Central European University Press, 2014). These two books were very well received, with *The Politics of Energy Dependency* awarded as "Outstanding Academic Title" by the journal *Choice* in 2014, and *Living the High Life in Minsk* receiving the prize of Best Foreign Book on Belarus published in 2013 and 2014, by the International Congress of Belarusian Studies (Kaunas, 2015). Yet something told me this was not the end of the story.

Through many years of work (and three published books, including the two above) on energy issues in the former Soviet Union (FSU) I have asked myself repeatedly: how have Russia's energy-poor neighbors dealt with Russia's energy prowess? How have they dealt with

the threat of Russia's use of its energy power against them, most obviously through possible supply suspensions? Yet the more I looked at this question, the more I understood that the *threat* Russian energy represented for these states could not be understood without understanding the *temptation* of Russian energy. Temptation, in what sense? The temptation has been, most obviously, one of the corrupt gains that could be made by well-connected groups able to tap into the large energy rents that could be accrued even in a situation of energy dependency. Indeed, the post-Soviet period presents many examples of energy policy being hijacked by corrupt interests, as we often saw in the case of Ukraine.<sup>1</sup> But the more I worked on these cases the more I got to understand there was something even deeper and more complex at play here: how threat and temptation were but two faces of the same phenomena – participation in the value and supply chains associated with the export of Russia's energy riches. Even in those situations where elite corruption did not get on the way of the state following a proactive energy policy, there

<sup>1</sup> See Margarita M. Balmaceda, *Energy Dependency, Politics and Corruption in the Former Soviet Union: Russia's Power, Oligarch's Profits and Ukraine's Missing Energy Policy, 1995-2006* (London and New York: Routledge, 2008).



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search has focused on the energy politics of energy-poor states. She was a Senior Fellow at the Alfried Krupp Wissenschaftskolleg in the academic year 2011/12 and then returned to the Kolleg with a Humboldt research grant from May to August 2018.

### Kurzvita

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My three-month Fellowship at the Alfried Krupp Wissenschaftskolleg, sponsored by a Renewed Research Stay grant fellowship by the Alexander von Humboldt Foundation, was spent working on my book manuscript *Chains of Value, Chains of Power: Russian Energy, Value Chains and the Remaking of Social Relations from Vladivostok to Brussels*. The book project pursues two goals. First, to better understand the factors enabling or constraining Russian energy leverage vis-à-vis its post-Soviet neighbors – a question with key implications for understanding the relative power of producer vis-à-vis consumer states more generally. How has participation in the value-added chains of Russian energy actors affected the responses of European and former Soviet (FSU) players vis-à-vis Russian energy initiatives? Are these factors similar, or different, for the various energy commodities exported by Russia, such as oil, gas and coal? A second and ultimately more ambitious goal is to create a framework for understanding how the material charac-

teristics of various energy commodities affect the constitution of power relations along their value-added chains, and each commodity's possible use as a means of external leverage by actors in the value chains, producers to those involved in processing and transit. In addition to my academic work, during my stay at the Wissenschaftskolleg I gained new perspectives through excellent discussions with fellow Wissenschaftskolleg alumni during the Alumni Weekend celebrations as well as with current fellows and members of the Wissenschaftskolleg's *Junges Kolleg*. More specifically concerning my research, I gained new insights through collaboration with the *Ukrainicum* summer school project, as well as through several bicycle tours to Lubmin, 20 kilometers from Greifswald, where the new NordStream natural gas pipeline enters Germany and a GDR-period boat-turned-restaurant, *Vaterland*, gathers a multilingual assortment of international visitors.

### Fellow-Projekt

was often a tension between two goals: establishing infrastructure to diversify supplies, and strengthening the country's role in the energy value-added chain of its main supplier, Russia – for example through that country's role in the transit of Russian oil and gas exports (as in Ukraine's role in gas transit) – as a way to both maintain a degree of leverage vis-à-vis its largest supplier, and as a means of accessing spill-over profits from Russian oil and gas exports. Because of the way energy technical systems work, being part of an energy exporter's value chains often locks into dependency on its supplies. While Ukraine and Belarus may offer the most obvious examples, a similar tension has characterized relations with states and other actors well West of their borders, including European Union (EU) states and companies.

It is these two aspects of the role of Russian energy supplies in the broad area from Vladivostok to Brussels that create the puzzle this book seeks to answer – a puzzle that cannot be understood without paying attention to the energy's technical side.

The book seeks to answer three central questions,

1. How have the specificities of these value chains affected power relations?
2. How have they affected key supplier states' ability to use energy as means of leverage?
3. How have these been different for different types of energy?

To answer these questions, the book looks at energy from the perspective of the role of actors engaged not simply in the export of ener-

gy, but *located all along the technical and value chain extending between production in Russia and use by end consumers in the EU*. Spatially, these chains pass through Russia, Ukraine (+ other states such as Slovakia and the Czech Republic), transit/processing states, and end in Germany. It follows three exemplary value chains, involving oil, natural gas and (coking) coal, the three fossil fuels central to Russian energy exports. It argues that energy outcomes and coalitions within these chains can be effectively analyzed by the confluence of governance arrangements, the various (at times mutually excluding) goals each of these actors (including states) may seek to pursue through energy, and the *material characteristics of each energy source they deal with*. (The focus period is October 2011 to March 2014 – the "calm before the storm" period immediately preceding Russian military intervention in Ukraine and annexation of Crimea in March–April 2014.)

#### Materiality as working through value chains – and its limits

In this book we understand energy materiality as the impact of the physical characteristics of an energy good on the way this good can work in markets and society. What did we learn about materiality's impact on value chains, and about the limits of materiality? We found significant evidence that materiality matters, but also that it is mediated by both the state of technology and what is considered to be economically efficient in different social and historical contexts. Thus, materiality-related constraints on the value chain provided the parameters of what *could* be done, but did not determine what *would* be done. Here actors' choices and the governance environment played an important role. Infrastructure can also be used in different ways due to political choices, with the tracing of new pipeline routes such as NordStream 1 and 2 as an obvious example.

#### The end of some supply chains: threat and temptation revisited

As discussed in chapters 3 and 4, important value and supply chains that were passing through Ukraine lost currency in the mid-2010s. While it intensified after 2011, this process started well before Nord Stream, in the 1990s. The shutting out of Ukraine from Russia's export value chain can in some ways be seen as a cataclysmic event. At issue is not only lost transit revenue (and the resulting wealth transit away from Ukraine), but power. Power in two ways: first, the counter-power involved in providing a service needed by the country's largest supplier of natural gas (the so-called bilateral monopoly between Ukraine and Russia discussed chapter 1), as well as the power implied in multilateralizing the supply of natural gas from Russia to the EU in a way also making Ukraine important for the EU. In addition, losing this transit role would also mean that Ukraine would not be able to use its complex transit infrastructure – going well beyond pipelines – losing, not only the investments made in system modernization ("sunk costs"), but also the employment provided by transit and related business. Here materiality issues become important once again: because of natural gas gaseous state, maintaining a certain pressure is essential for the gas' to flow at all; below a specific load level, a natural gas pipeline simply cannot function. This is the context in which various Russian promises that transit via Ukraine would continue despite increasing volumes being shipped via Nord Stream 1 and 2 need to be understood. At a security level, transit power for Ukraine also means that, as long as the country is a significant transit carrier of Russian gas, this role offers a degree of protection against an all-out military intervention by Russia. Yet we also saw how infrastructure that could in theory bring both income and some counter-power vis-à-vis suppliers may see this possible role squandered if misused for other purposes.

#### Cases: Whole value-added chain studies

Energy commodity value chain	Description	Countries involved
(ch. 3) Gas: From Western Siberia to the German Consumer	Export of "raw" Russian natural gas to Germany and use for electricity generation	Russia-Ukraine-Slovakia-Czech Republic-Germany
(ch. 4) Oil From Siberian Fields to German Petrol Stations	German imports of oil products refined in CZ of Russian oil transited through Ukraine	Russia-Ukraine-Slovakia-Czech Republic-Germany
(ch. 5) Coal From Kuzbass to Ukraine's Metallurgical Complex in the Donbas to Germany	Export of Russian coking coal to Ukraine, use as feedstock for metallurgical industry, and export of resulting products to Germany	Russia-Ukraine-Italy-Germany

#### CHAPTER OVERVIEW

##### Part I: Framework and Context

Chapter 1: (Introduction) Energy: a Weapon or Constituent Part of Disaggregated Power Relations?

Chapter 2: Energy: Materiality and Power

##### Part II: Hydrocarbon Chains and Political Power

Chapter 3: Gas: From Western Siberia to the German Consumer

Chapter 4: Oil From Siberian Fields to the Petrol Stations in Germany

Chapter 5: Coal from Kuzbass to Ukraine's Metallurgical Complex in Donbas to Germany

##### Part III: New Energies, New Political Chains?

Chapter 6: Disruptive Energies: New Trans-border Coalitions and the Renewables and Unconventional Oil and Gas Revolution

Chapter 7: Conclusion

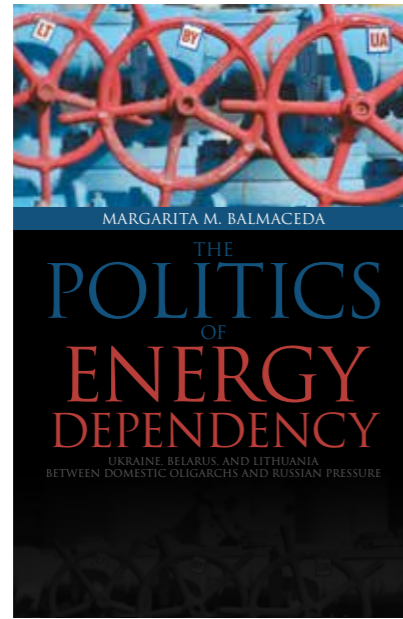


Fig. 2: Considering natural energy resources and their extensive use as powerful political tools, in this work from 2013 Balmaceda focuses on Eastern Europe and its suspenseful post-soviet developments.

I am referring to Ukraine's declining role in natural gas transit, which was the result not only of external decisions by Gazprom, but also of domestic Ukrainian dynamics affecting the use of the infrastructure as well as Ukraine's reputational capital as a transit state.

The issues discussed in this book are not simply theoretical ones. The question of the possible end of some value chains and survival of others has important practical implications for the ability of various actors to balance risk and opportunity, "threat" and "temptation" in their participation in European and global energy markets. Concretely concerning Ukraine, and leaving aside Gazprom assertions that it may unilaterally terminate the current contract ahead of time, the contract is set to expire at the end of 2019. Also that year, NordStream 2

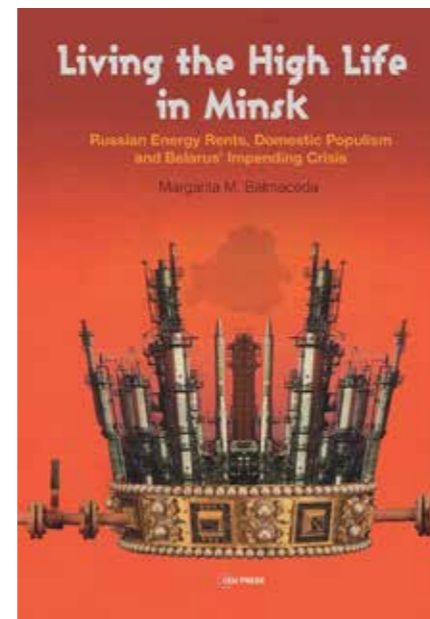


Fig. 3: In this Book from 2014, the autor analyzes the power politics of Belarusian long-term president Lucashenko. Once more she looks at this through the lens of the energy question and its existential relevance.

may be completed (work was started in Spring 2018 despite ongoing objections by Sweden and Poland), and a definitive EC decision on the conditions of Gazprom use of the OPAL pipeline (and, consequently, of NordStream's use) is expected. Expected events (for example, the fact that the current Russian-Ukrainian transit contract is set to expire at the end of 2019, together with the presidential elections to be held in Ukraine in March 2019) open a new era of uncertainty in Ukrainian-Russian natural gas relations as well as concerning Ukraine's continued role in transit.

Much discussion around Nord Stream 1 and 2 has focused on what these projects would mean to Ukraine by reducing its role in transit. These debates also raise the question: Is there a "right" to play a transit role? Until

now, initiatives such as the Energy Charter Treaty process as well as widely-used concepts of energy supply security and energy security more generally have focused on the need to guarantee an energy good's safe passage from producer to consumer, and the ability of diverse producers to access energy transit infrastructure (through the principle of Third Party Access for example), but always with the end consumer as focus of attention. Can we also talk of a country's right to maintain a profitable role in an energy exports system which, in a different (Soviet) political context, that country was key to maintaining in working order, not only through transit services but through broader "networkness management" services (see chapter 3) such as storage and pressure management?

(with Kirsten Westphal), "Cross-Regional Production Chains, regional fault lines and competitive regional processes in Eurasia," under review for special issue on Energy Regionalism, *Review of Policy Research* (forthcoming)  
 (with Per Högselius, Corey Johnson, Heiko Pleines, Doug Rogers, and Veli-Pekka Tynkynnen), "Energy Materiality: A Literature Review." Under review at *Energy Research and Social Sciences*.

Despite the evident significance of technical elements, the question of Ukraine's role in transit cannot be answered at a solely technical level, but requires political and even moral answers based on a deep understanding of history. Should countries and regions made subject for decades to the dependency ("threat") effects of being made part of certain supply and infrastructure chains built under a previous political system (the Soviet Union) be guaranteed also access to the benefits ("temptation") side of being part of these chains? Does the European Union have a moral duty to extend solidarity to Ukraine on the basis of what many see as its historical and contemporary role as bulwark vis-à-vis Russian expansionism and as well as against Nazi aggression, and enormous loss of life in WWII?

*Chains of Value, Chains of Power: Russian Energy, Value Chains and the Remaking of Social Relations from Vladivostok to Brussels.* Book manuscript in preparation.

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