The Kremlin`s Strategic Plans for Siberia

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Siberia is typically perceived as a remote wilderness full of frozen tundra and vast forests. It occupies an area of about 13 million square kilometers, which represents approximately 10% of the earth's surface. However, its population density is amongst the lowest in the world, at only three people per square kilometer. It is covered with numerous mountain ranges, such as the Ural and Altai, and rivers that, when unfrozen, flow into the Arctic Ocean. The cold climate with long winters and short summers makes living and working there a challenge, but it remains an important region due to the richness and diversity of its natural resources.

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Siberia's geographic and climactic characteristics have been significant barriers to its economic development, but the region still protects Russia against invasion from the Eurasian steppe, one of the two routes traditionally used by invaders (the other is the North European Plain, used by both Napoleon and Hitler). As a strategic redoubt, Siberia also protects Russia during invasion from the west. But in the current reality of world politics, Russia is neither at war nor threatened from either the east or the west, which means that the role of Siberia rests more on its supply of natural resources than in its military function.

Siberia's Development: Past and Present

For millennia, Siberia has been inhabited by nomadic Mongol and Turkic groups, such as the Buryats, Yakuts, Tuvinians and Tatars. The Mongols conquered large tracts of Siberia in the early 13th century, and late in the 14th century, after the collapse of the Golden Horde, the western section of the Mongol Empire was declared an autonomous Siberian Khanate.

In the 16th century, the rebirth of the Russian state (then called the Grand Duchy of Moscovy) began to encroach on the Siberian Khanate from the west. Determined to obtain furs and other resources, Russian merchants and Cossacks began to enter the area. Thereafter, the Russian army

began building fortifications farther east to secure and expand the state's business operation. One century later, Russia's control extended across Siberia to the Pacific Ocean.

Between the years 1891-1916 important changes occurred in Siberia following the construction of the Trans-Siberian Railway, which expanded Tsarist Russia's trade routes and enhanced its ability to deploy troops eastward. Historians estimate that between 1801 and 1914 about 7 million settlers moved from European Russia to Siberia, but the great majority of these (85%) settled during the quarter century before the outbreak of World War I. With this quick infusion of Russian settlers Siberia was transformed into a major base for resource extraction and production. The Soviet Union, which succeeded the Tsarist Empire, then embarked on a process of large- scale industrialization. Under the leadership of Joseph Stalin, the Soviet Union began to found one-industry towns in Siberia such as Magnitogorsk, Norilsk and Zlatoust.

The economic value of Russia's conquered lands in Siberia was substantial. Although the greater part of its territory is frozen, southwest Siberia's climate is more moderate and its black soil more fertile. Rye, barley, wheat and potatoes are grown here in large quantities and sheep and cattle are abundantly raised.

But what made Siberia pivotal in the emergence of Russia as a major regional, and ultimately, global power is the development of Soviet industry in the second half of the 20th century. Some of the world's largest deposits of gold, lead, coal, nickel, diamonds, gypsum, molybdenum, diopside, zinc and silver are located in Siberia; the region is a major producer and exporter of these minerals. Russia has, for example, more than 40% of the world's known nickel deposits, which are primarily exploited by Norilsk Nickel, Russia's largest mining company and the world's primary producer of nickel and palladium. Russia ranks fourth in global steel production, after China, Japan and the United States, and in 2011 was tied with Japan in quantity of steel exports.

The production and export of these minerals account for about 3-4% of Russia's GDP, a significant share, but today Siberia's real significance for Russia, economically and geopolitically, lies in its oil and gas resources. Crude oil and petroleum products exports account for half of federal revenues. Russia is the world's largest producer of 'black gold,' running neck-and-neck with Saudi Arabia. At a time when the economic crisis is having an increasingly adverse impact on energy demand in Europe, Moscow hopes to increasingly rely on Asia, the main engine of energy consumption in recent years, to diversify its markets for oil and gas export.

The majority of Russian oil production (10.3 million barrels per day) comes from western Siberia, namely the oil fields of Mamontovskoye, Prirazlomnoye, Priobskoye, Malobalykskoye and Surgut. Maintaining Russian oil production levels will also depend on exploiting the oil fields on the Sakhalin Islands in the Far East, in addition to other regions outside Siberia such as the North Caucasus, Tatarstan and Bashkortostan. At 5.1 million barrels per day, Russian oil exports achieved in 2012 their highest levels since Soviet times.

At 45 trillion cubic meters – about a quarter of the world's total proven reserves – Russia also possesses the world's largest natural gas reserves. Like oil, most of the Russian gas deposits are located in Siberia. The Yamburg, Medvezh'ye and Urgengoy fields alone represent about 45% of Russia's total reserves and are exploited by Gazprom, a Russian state-run natural gas company. Approximately 95% of Russia's natural gas production takes place in Siberia.

Natural Resources in Russia's Economic Growth Strategy

Since the fall of the Soviet Union, Russia's economic growth has been driven by the production of natural resources. Between 2000 and 2008 Russia's GDP grew at an average annual rate of 7%. Due to its dependence on exports of raw materials, the Russian economy has briefly but deeply contracted during the global financial crisis, but growth has returned since 2010. In 2011, revenues from exports of oil and natural gas accounted for 50% of the Russian budget.

Oil and natural gas resources in particular are crucial not only as sources of income for the Russian state but also as levers in Russian foreign policy. This is most noticeable in Europe, to which Russia provides roughly a quarter of the energy supply. Of particular political value is natural gas because Russia dominates not only the supply of that energy source but also the distribution network, particularly in Central and Eastern Europe.

In the 1970s, when the "thaw" characterized Soviet-U.S. relations, Russia began to develop an extensive energy distribution and export pipeline network. "Druzhba" (Friendship) is the largest Russian oil pipeline, while the largest natural gas pipelines include the Yamal-Europe I, Soyuz ("Brotherhood"), Bratrstvo and Northern Lights, all of which run through Ukraine and Belarus to carry Russian natural gas to Eastern and Western European markets. The Nord Stream pipeline, which bypasses transit state troublesome to Russia, such as Ukraine, and crosses the Baltic Sea straight to Germany, has recently been opened. On December 7, 2012, Russia also began construction of another pipeline project, South Stream, which will cut through the Black Sea.

Many Europeans living in the central and eastern part of the continent are completely dependent on Russian gas, but even some of the bigger players, such as Germany, Italy and Turkey, also rely heavily on Russian natural gas supplies.

Russia has used this relationship to its advantage, whether through the creation of close commercial or political relationships, such as those with the Germans or Italians, or by cutting supplies to force Ukraine in 2006 and 2009, Belarus in 2010 and Lithuania in 2006 to yield to Russia's demands and conditions. These cutoffs (in Ukraine they took place in the middle of the winter) sent the message that Russia's interests must be taken into consideration on any strategic issues, the most important of these perhaps being Ukraine's friendliness with the West. Russia's gains in the energy markets of Germany, France, Italy and other western European countries have provided opportunities for the Kremlin to voice its opinion on European energy issues – and by the same token other issues.

East Asia's Growing Energy Consumption

About 80% of Russian oil exports are currently destined for the European market, but gradually increasing quantities also go to East Asia. In December 2009 Moscow and Beijing launched the first section of the 4,740 km-long East Siberia-Pacific Ocean (ESPO) oil pipeline, which has a capacity of 600,000 barrels of oil per day and a total of 30 million tons of oil per year. Dwarfing all other infrastructure projects in post-Soviet Russia, it is set to raise its output to 50 million tons per year. The project links Taishet (Eastern Siberia), a town and a railroad junction in the Irkutsk Oblast, to Skovorodino in the Amur Oblast, located only 54 kilometers from the border to China. A 930 km-long branch that connects the first section of the East Siberia-Pacific Ocean pipeline to refineries located in the northeast Chinese city of Daqing has been operational since early 2011.

On December 25 Russia brought into service the second section of the ESPO, which runs between the Siberian city of Skovorodino and the Kozmino oil-loading port in the bay of Kozmino, about 100 km east of Russia's city of Vladivostok. The $25 billion pipeline (the world's longest), Russia hopes, will allow it to compete with American companies in the high consuming East Asia and South-East Asia regions. However, there are doubts over whether Siberia's oil fields have enough extractable oil to keep the pipeline flowing at full capacity. The new pipeline section will "considerably increase the infrastructure capacity of the regions in Russia's Far East," said President Putin in a televised address. He called the commissioning a "significant event."

With the second section of the ESPO now operational, Russia hopes to supply the entire Pacific region. Putin stressed that once loaded into tankers, Siberian crude oil would be heading mostly for China. It will also be supplied to Japan, South Korea, Singapore, the Philippines, Taiwan and Malaysia, as well as the United States, although the latter will not become major destination in the long term.

According to Nikolai Tokarev, President of Transneft, Russia's state-controlled pipeline operator, 35% of oil loaded at the Kozmino Port is shipped to the United States, the world's largest oil consumer, while approximately 30% goes to Japan and between 25% and 28% to China. The he remaining volumes, approximately 40%,go to Singapore, Malaysia and South Korea. Transneft hopes to substantially increase the amount of oil exported from Kozmino from 15.6 million tons in 2012 to 21 million tons in 2013, and eventually 30 million tons by 2015.

The ESPO pipeline is mainly oriented to supplying Japan, South Korea and China. Due to its extraordinary economic growth, China constitutes the most dynamic energy market. After the shutdown of many plants in the wake of the Fukushima nuclear disaster, Japan will be forced to make up for the lost of energy production. In the United States, consumption remains well below levels prior to the 2008 financial crisis, while the country's crude oil production has increased in recent years. In 2011 Russian oil represented only 5% of U.S. crude oil imports, however, this share has almost doubled in the last five years, according to U.S. government statistics.

Gas export also looms large in Russia's energy strategy. Increasingly important for the Kremlin is the development of energy ties with East Asia, particularly China, through the further exploitation of gas reserves in eastern Siberia and Sakhalin and natural gas reserves in central Siberia. East Asia is indeed increasing its consumption of minerals and energy resources growing at breathtaking pace.

Two trends in Europe have led Russia to look more closely at the Far East and build with it closer energy ties. One is that Europeans, for demographic and economic reasons, have already reached a peak in terms of energy consumption. The second is that a growing number of European countries are slowly but surely diversifying their energy supplies, a trend that will ultimately create a loss of demand for Russian energy exports.

Although the EU's "Southern Corridor" projects, designed to create a pipeline infrastructure bypassing Russia, have so far failed to meet expectations (particularly Nabucco), other energy developments are chipping away at Gazprom's domination of the European energy market. Of particular importance is the multiplication of liquefied natural gas (LNG) projects, a source of energy that now represents 30% of the global natural gas supply. The building of several LNG import terminals in Western Europe, and for the first time in Central and Eastern Europe, specifically Poland and Lithuania, has significantly improved LNG import facilities.

Another threat to Russia's position in many European countries, where Gazprom dominates both supply and demands, is the EU Third Energy Package, a batch of legislations adopted to further regulate the internal EU gas and electricity market. The Asian market entails vast possibilities for energy exports growth, but it is a relatively new one for Russian managers, while the European market will continue to resist the influence Russia has developed over it during the past few decades. However, regardless of how Russia's energy policy continues to evolve, Siberia will gain in importance in Russia's strategic plans, both as a buffer zone and a resource base.

Tags

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