

UK Energy Governance Change and the 'Russian Bear': 2003-2007

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1. Introduction:

Energy underpins our daily lives: it lights our streets, heats our homes, powers our industry, and fuels our vehicles. That's why securing cheap, reliable and sustainable sources of energy supply has long been a major concern for governments. (Tony Blair in Cabinet Office 2002: 1)

By 2007 it was widely perceived in the UK that energy was 'in crisis' – this period is now referred to as the 2000s Energy Crisis. This perception of crisis stands in direct contrast to the perceptions of the 'benign' international energy environment referenced only a few years earlier, in the 2002 Energy Review (Cabinet Office 2002: 6). Oil and gas prices had escalated dramatically, and were in addition volatile, reflecting changing supply and demand scenarios and the 're-politicisation' of energy that was taking place internationally. Energy, referred to as a security issue, now had a place at the top of international political agendas. UK energy policy was starting to show signs of alteration. Although UK energy policy was still framed within a 'market-oriented' paradigm the Government, Cabinet and Parliament, was becoming more directly involved in debating and deciding on energy governance issues.

Any major changes to the way in which energy is governed in the UK can be understood to have considerable wider significance. This is not least because the UK can, in many respects, be considered as the intellectual and ideological home of the pro-market style of energy governance, which this paper refers to as the market-oriented energy policy paradigm.¹ It was one of the first countries to embark on the process of privatising and liberalising its energy sector in the early 1980s and is the country where the market-oriented paradigm, with its emphasis on competition, price and choice, is arguably the most institutionalised.

There has since the 1980s been increasingly widespread support for this brand of energy governance from prominent international institutions such as the European Union (EU) and the International Energy Association (IEA) – in fact the IEA has often referred to the UK as a 'model energy reformer' (IEA 2006). Many countries, particularly within the OECD, have followed the UK's lead by privatising and liberalising their energy sectors, so much so that market oriented energy governance is sometimes referred to as the 'new orthodoxy' (CEPMLP 2006).

In 2003-4, the period from which this analysis starts, those institutions responsible for energy governance, primarily the Department for Trade and Industry (DTI), had been ascribed a number of new tasks. The first was to consider the risks for the UK associated with becoming a net importer once more of oil and gas. The initial assessment of these risks was reasonably sanguine and no changes of any significance were made to the way in which UK energy was governed, nor to the regulatory framework. The second was to include new social and environmental objectives within its remit. In hindsight both these new objectives could be classed as monumental but at the time they were dealt with, almost exclusively, by extending existing domestic and foreign policy instruments and maintaining institutional arrangements. Energy was not considered, in 2003-4, to be in crisis.

Clearly, the international political economy of energy had been changing in a number of ways over the course of the mid 2000s, many of these changes are already referenced in the UK 2003 Energy White Paper (DTI 2003). Climate change arguments were gaining in political traction, China and India had emerged as large and growing fossil fuel importers, OECD production was dwindling, and the West was perceived as being a less safe place since '9/11' and the start of the War on Terror. Equally significant for the political economy of energy in the UK, however, was the international re-politicisation of energy which occurred post the imprisonment of Yukos's CEO, the re-nationalisation of Russian energy assets, and particularly post the 2006 Russo-Ukrainian transit dispute.

This paper will argue that Russia's changing role in the international political economy of energy and, just as importantly, the way this was perceived in the UK put energy back at centre stage, or re-politicised it, within UK political and wider public circles. It caused serious concerns about energy supply security to re-ignite which was all the more significant for the UK as it was moving from a net exporter to importer of fossil fuels, particularly

¹ The term 'energy policy paradigm' is used with reference to the work of various new institutionalist analysts, particularly Peter Hall (1993) and Colin Hay (). An energy policy paradigm is an interpretive framework which colours how policymakers define problems as well as decide on appropriate solutions. Such a framework can often become taken for granted by policymakers and other stakeholders and thus unamenable to scrutiny as a whole (Hall 1993: 279).

gas.² The growing sense in political and public circles that energy had entered a period of crisis, and was once more a matter for national security, caused a number of changes to UK energy policymaking. Firstly, it allowed for much greater political and financial capital to be allocated to the task of understanding and attempting to resolve the UK's energy problems. Secondly, it led to a series of policy decisions, among other things about fuel mix and about Russia's role as a global energy supplier, that were not informed by neoliberal ideas. Lastly, fear about energy dependence particularly had underpinned arguments about sustainable energy being a panacea for energy security.

2. UK Energy Policy 2003-4: the Market-Oriented Energy Policy Paradigm and New Objectives

In the last decade, the case for market economics has emerged, coherent and formidable, as a blueprint for prosperity and a guarantee of freedom.

(Department of the Environment, *This Common Inheritance*, 1990)

There is a growing literature on energy that uses the term 'paradigm' and concludes that a paradigm shift is now what is required in the global energy system. Generally speaking the term paradigm is used to signify that there has been, for the last few decades, an established socio-economic system that has influenced the way in which energy has been governed, and used, in the OECD and beyond (Stanislaw 2004; Helm 2005; Clarke 2007; Mitchell 2008; Klare 2008). A number of high profile UK energy analysts have characterised UK energy policy as one which is informed by neoliberal economic ideas and one which has become deeply sedimented and resistant to change (Carter 2001; Helm 2003; Mitchell 2008; Tutton 2009).

This 'energy paradigms' literature is useful, not in that it provides a particularly clear definition of what a paradigm is, but because analysing energy governance in terms of established paradigms serves as a sound starting point for understanding UK energy governance, the degree of resistance to change, and the significance, therefore, of any profound alteration that does occur. The UK market-oriented energy policy paradigm is a system that had been established in the 1980s under the Conservative Administration, led by Margaret Thatcher. It is widely considered to have been influenced by neoliberal ideas about the limitations of state involvement in economic management, including energy, the advantages of freely trading, competitive energy markets and the need to internationalise governance structures underpinned by these ideas (Helm 2003; CEPMLP 2006; Mitchell 2008).

Energy within this paradigm is treated in governance terms as a sector of the economy with the emphasis on its role as tradable commodity in stark contrast to the previous tendency in Great Britain, which is common also in other countries now, to conceptualise energy as a form of national good. What this means in terms of political institutions is that, as of 1992, responsibility for energy policymaking, which to a large extent was about maintaining a framework within which the markets could trade freely, has lain within a division of the Department for Trade and Industry (DTI). Energy policymaking had in this sense been actively de-politicised particularly because in as much as there was no Secretary of State for Energy there was no direct Cabinet level representation of energy and little Government time spent on the subject.³ It was also de-politicised to the extent that little debate took place about energy, as opposed to climate change, governance that was critical of the market-oriented paradigm within elite energy circles until the mid-2000s.

2.1. Domestic Policy

A new concern had, however, started to emerge for energy policymakers in the early 2000s which was the need to anticipate the UK's imminent switch from exporter to importer of fossil fuels.⁴ This, in addition to New Labour's increasing emphasis on de-carbonising the economy and protecting consumers, was already starting to put a considerable strain on energy policy and departmental capacity. The material reality of becoming importer once more had prompted a limited amount of interest in energy at Cabinet level and hence the 2002 'Review of Energy'. The Review, however, had reached some quite sanguine conclusions about the UK's move to importer, about

² One important UK energy analyst had previously concluded that 'energy security' had been made obsolete by the advent of the marketisation of energy (Mitchell).

³ The concept of de-politicisation employed here is that conceptualised by Colin Hay in his 2007 book 'Why we Hate Politics' and refers to an active policy of distancing Government from direct involvement in various issue areas. He focuses on the de-politicisation of the management of capital but here de-politicisation is extended to energy in its position as sub-sector of the economy (Hay 2007). It has been claimed that energy was actively de-politicised by both Conservative and New Labour Administrations: '(c)ompetition and liberalisation would, its architects hopes, take energy out of the political arena... Labour shared this vision and hoped that energy would drop off the political agenda.' (Helm 2003: 386)

⁴ 'The level of (gas) imports may rise to as much as 40% of demand by 2010 and to 80-90% by 2020' (DTI, 2006)

available infrastructure and capacity, such that it concluded that no significant policy changes were required. The 2002 Energy Review has been referred to, by a UK government energy advisor, as a wasted opportunity. He claims that the Review could have been used to set out an alternative energy policy framework that would be more capable of meeting environmental targets (Helm 2003: 397).⁵

2.1.1 The New Energy Policy Goals

In 2002 the primary stated objective of energy policy was the maintenance, implying that one already exists, of a secure and reliable energy system. The 2003 Energy White Paper however included four energy policy objectives:

- *to put ourselves on a path to cut the UK's carbon dioxide emissions... by some 60% by **about** 2050;*
- *to maintain reliability of energy supplies;*
- *to promote competitive markets in the UK and beyond, helping to raise the rate of sustained economic growth and productivity;*
- *to ensure that every home is adequately and affordably heated.* (DTI 2003: 11)

Despite this new, rather complicated, set of goals the instruments of energy policy and the overall regulatory framework that had been established under the Conservatives, was maintained.⁶ The advantages of competition, market forces, economic instruments and multilateral agreement in an interdependent world are repeatedly thrown against these new policy goals, but as things turned out, later with less effect than hoped.

Clearly the concentrated emphasis on reducing CO2 emissions as a specific energy policy goal, previously part of environmental objectives within the domain of DEFRA, shows the emergence in importance within elite political circles of ideas about climate change. Although de-carbonisation and sustainable energy are prioritised as policy goals, however, little alteration is made to the instruments of policy or overall policy framework.⁷ It is clear that only certain scientific climate change, or ecological, ideas were being taken up whilst other climate change ideas, such as those that challenge existing market-oriented structures, were being ignored. This is arguably part of what Steven Bernstein terms the 'liberal-environmental compromise' whereby dominant neoliberal economic political elites chose some environmental and scientific ideas to include within policy while ignoring those others which emphasise alteration to existing governance systems (Bernstein 2001: 187).⁸

Although the 2003 White Paper sets out what it calls a '...challenging, long-term, agenda for change ...' it also confirms that no new organisation is needed to facilitate this change. This is because the DTI wanted to '...to concentrate (its) energies on following through the commitments we have made, not on creating new machinery.' (DTI 2003: 113) Thus transitioning to a low carbon economy would need to be achieved without adding any new institutional capacity. The DTI does, however, call for a new Sustainable Energy Policy Network to be set up which was to combine departmental policy units around the focus point of the DTI's Energy Strategy Unit (DTI 2003: 112).

2.1.2 Investment Requirements:

What started to become clearer, however, by the time that the 2003 White Paper was published was that a 'new', cleaner and secure energy system was going to require considerable investment going forward both in existing generating capacity and in renewable technologies and systems. Renewable technologies were, and still are, far from being able to provide national scale sustainable energy solutions, although these early reports and papers are much more optimistic about the role they would play in the energy mix going forward. In addition, although in the 2002 review the overall conclusion had been that UK gas and generation capacity was in good shape, further

⁵ This was partly, argued Helm, due to the fact that the methodology employed remained the same, tending towards a 'problem solving' solutions, and there was no analysis of 'alternatives' (Helm 2003: 397).

⁶ Both the 2003 White Paper and the later, 2004, FCO report on energy almost exclusively emphasise the role of markets and the private sector in delivering climate change goals (DTI 2003; FCO et al 2004).

⁷ It should be pointed out that a few non-economic instruments, operated by Ofgem, were also employed in the drive to reduce emissions, such as small capital grants and a more supportive approach to planning. Principal among these was the Renewables Obligation (RO), introduced in April 2002, which was an attempt to directly support renewable generation. This was to be achieved through an obligation on suppliers in England and Wales to obtain an increasing proportion of electricity from renewable sources (FCO 2003: 12). The RO, however, included nuclear as a renewable source and so the vast majority of extra support went to maintaining costly nuclear power (Mitchell and Connor 2004; Van der Horst 2005). Mitchell and Connor also note that the only practical difference in support for renewable energy at this point was an additional £60m of capital grants in 2005-6 (Mitchell and Connor 2004:1935).

⁸ '...economic ideas overshadowed scientific ideas and ecological thought in producing normative compromises at key junctures in the evolution of the environmental norm-complex over the last thirty years (Bernstein 2001: 190)

investigation was proving the need for significant domestic investment in capacity. It was agreed that market actors could be relied upon to provide this investment given the right incentives and degree of encouragement.⁹

Overall with regard to renewable investments the DTI decided that by

...making our intentions clear we aim to provide the signals needed for firms to invest - and to help British manufacturers to be ahead of the game in developing the green technologies that we expect to play a large part in the world's future prosperity. (DTI 2003: 13)

With the benefit of hindsight, it appears as if the relative withdrawal of 'the state' from energy policymaking, or in other words its active de-politicisation, had reduced political capacity to understand the complexities, and frankly the costs, of the problems that they were wishing to address (CEPMLP 2006).¹⁰ This is evident in the contradiction between the policy objectives of reducing CO2 emissions and ensuring that homes are affordably heated. The enormous investment required to completely reconfiguring the UK energy system, generation and transmission, such that the percentage of renewables would grow significantly would arguably be immense and should theoretically, under a market system, be passed on to consumers.

2.1.3 The UK's Fuel Mix Projections:

It is worth spending some short time here considering the expectations within policy documents at this time of what energy sources would be most dominant in future as these assumptions change in the later 2007 White Paper. The 2003 White Paper overtly confirms that it is *not* the place of government to set targets for the share of total energy to be met by different fuels as Government is understood not to be equipped to decide the composition of the fuel mix (DTI 2003: 11). The vision for the UK fuel mix going forward is however laid out at some length.

Clearly the requirement of reducing emissions had placed the emphasis on relatively clean and sustainable energy going forward and renewables were predicted to provide 20% of UK energy requirements by 2020 (DTI 2003: 12).¹¹ However, other goals of energy policy such as secure, reliable and affordable energy bring with them other commitments. Therefore the 2003 White Paper underpins the role of gas as a transition fuel. Gas had, clearly, over the course of the 1990s been considered secure and reliable, not to mention convenient, due to indigenous production. The replacement of much coal with gas-fired electricity generation in the 1990s had already had a positive impact on emissions (DETR 2000). Gas was expected, therefore, to play a major role in UK electricity generation going forward (Helm 2003: 365). The anticipated role of gas was also to be boosted both by CCS and new efficient boiler technology – both of which were expected to come online in the short to medium term. This perception of gas as the transition fuel, as will be argued below, was to alter significantly around the middle of the 2000s, specifically post the Russo-Ukrainian transit dispute.

Coal had historically been the British fuel, large indigenous supplies having facilitated the Industrial Revolution, and the sector had been protected by state policy throughout much of the 20th century.¹² However by 2003 it had been decided that coal could only remain a significant part of the UK fuel mix going forward '...if ways of reducing carbon emissions can be found.' (DTI 2003: 12) Likewise nuclear was at this time out of favour, despite the indirect support it received via the Renewables Obligation (RO). The 2003 White Paper, in pointing out its lack of cost effectiveness and environmental concerns about waste, basically puts nuclear on hold:

Nuclear power is currently an important source of carbon-free electricity. However, its current economics make it an unattractive option for new, carbon-free generating capacity and there are also important issues of nuclear waste to be resolved. These issues include our legacy waste and continued waste arising from other sources. This white paper does not contain specific proposals for building new nuclear power stations. (DTI 2003: 12)

2.2 Foreign Policy: the Pro-Competition Agenda

⁹ 'It will be clear from this white paper that we believe we need to prepare for an energy system that is likely to be quite different from today. It will be for the **market to develop and invest** in this. But we need to set clear goals and a strategy within which the market has the confidence, ability and sense of long-term commitment to do so.' (DTI 2003: 16)

¹⁰ Reference to Helm and deliberate attempt to remove energy from politics and to energy policymaking in the DTI with no Secretary of State for Energy or Energy Ministry;

¹¹ The renewables target is, in 2010, only 15% of energy (DECC 2010).

¹² For an interesting recent history of UK coal see chapter 9 of Dieter Helm's 2003 analysis of British Energy Policy since 1979.

Any analysis of UK foreign policy in the early part of the 2000s should be understood within the context of the September 11 attacks, the subsequent launch of the War on Terror, and the London 2005 bombings.¹³ This was a period of heightened awareness of, and sensitivity to, threats to national security as well as of problems whose gravity the UK may previously have underestimated. In 2003 the Foreign Office for the first time produced a document outlining the UK's International Priorities and included amongst those were securing environmental change and becoming a new importer of energy (FCO 2003).¹⁴ The emphasis of UK energy foreign policy, such as it existed as a comprehensive foreign policy area, was on multilateral co-operation to ensure open and competitive markets on a wider international scale (DTI 2003; FCO et al 2004).

2.2.1 Promoting International Energy Norms:

Underpinning the FCO's energy strategy was a series of assumptions about markets and ensuring the political uptake of market rules abroad (FCO et al 2004: 14). The UK has, to a greater or lesser degree over time, been keen on exporting its governance norms in line with historical Anglo-Saxon tendencies toward monism.¹⁵

EU and wider energy market liberalisation, and gas market reform in particular, was considered a key part of maintaining energy security and the UK had worked very hard toward securing international market liberalisation. EU energy ministers had agreed an energy liberalisation package in November 2002 – a package that the UK had instigated – and this step was seen as a major step toward development of liquid international gas markets (DTI 2003: 81-82; FCO 2004: 13), as would any wider internationalisation of liberal energy.

The UK firmly believed that liberalisation, and competition would lead to a wide array of positive outcomes. Amongst which were lower prices and improved availability:

Competitive and liquid global markets, with oil and gas traded freely are the most effective way to help deliver more stable energy prices and for us to purchase what we need at any time (DTI 2003: 79).

In addition it was understood that:

...(i)n liberalised markets, forward prices will send signals about the need for future investment. Suppliers will act on these signals, and on their own assessments of risk and opportunity, to innovate and plan to meet those needs (DTI 2003: 14).

Another integral assumption is that increased trade between countries would foster increased economic interdependence (DTI 2003: 14). The UK's emergent position as importer of fossil fuels is understood in terms of mutual dependency whereby the producer's energy will be as important to the UK as the income from the UK is to the producer. Again, this is a seemingly benign understanding of international energy trade and the UK's role in it.

Such a benign view was further underpinned by the fact that the development of the Energy Charter Treaty (ECT) at this time provided a good degree of support to the process of internationalising free trade norms. As has been pointed out by a leading UK energy analysis institute:

(a)n international agenda for oil and gas is a sine qua non however, given the UK's increasing dependence on imports. (CEPMLP 2006: 19)

The continued development and extension of the ECT was therefore deeply important to the UK strategy.

In addition, but related to this, the Foreign Office was committed to working internationally to promote regional stability, economic reform, and appropriate environmental policies in the regions that supply most of the world's

¹³ This paper is not concerned with the UK's role in invading Iraq although it does acknowledge that many claims have been made about the relationship between Iraq's large oil resources and UK desire to access to fossil fuels;

¹⁴ The role of the FCO within energy governance was to act as advisor to the DTI and to actively support international co-operation.

¹⁵ Isiah Berlin considered '...Anglo-Saxon liberalism as having a tendency towards monism...' by which he meant it was a system which inclined towards bringing '...others to adhere to the same political or economic approach.' (Berlin 1977: xix). More recently, Coates and Hay, among others, have concluded that both 'Blairism' and 'Thatcherism' understood themselves as ideological projects for export. This is not only because of belief in the underpinning ideas, but also because the success of these projects 'requires the resetting of international... institutions and practices in its image' (Coates and Hay 2001: 448).

oil and gas – Russia, the Middle East, and North Africa.¹⁶ This was to be achieved largely through the auspices of multilateral organisations such as the EU and IEA (FCO 2004).

2.2.2 UK's Perception of Russia as Energy Provider

In 2002 Vladimir Putin had visited London, met with Tony Blair and participated in a televised press conference. There were many topics to be discussed, not least the War on Terror, which was equally important to Russia and the UK. Also, however, at this time a Memorandum of Understanding was signed which would open the way for the Nordstream Pipeline to extend to the UK. UK-Russia relations have seldom been particularly easy,¹⁷ but in 2002 they were on a reasonable footing. Although Norway was expected to be the primary supplier of gas to the UK going forward it was also understood that Russia would also be a key provider.¹⁸ Moreover, the extension of Nord Stream would allow the UK to import directly from Russia.

In 2003 it also appeared that Putin had given his personal endorsement of the TNK-BP Production Sharing Agreement (PSA), which was by far the largest in Russia (Locatelli 2006; Brill Olcott 2004). The UK subsequently became the largest investor in Russia (Lee 2007). All of this was underpinned by the End of the Cold War and the slow, but assumed to be reasonably steady, progress by Russia in liberalising its politics and economy. It was understood in the UK and Europe that the privatisation of the oil and gas sector had taken place, albeit under the cloud of the loans for shares scandal, in the mid 1990s would make Russia a more stable supplier. As would, more importantly, their signature to the ECT, which theoretically implied that a key global supplier of oil and gas would be for the first time be signed legally into liberal trade norms for energy.

Further liberalisation of Russian gas markets was understood as being necessary. This was important to improving the investment climate for Russia and therefore outlook for energy prices:

... (t)he biggest single issue on gas pricing involves Russia and its very low prices for domestic (both household and industrial) supply. The danger is that low prices will deter investors from entering the market and new production capacity will not be developed, with negative effects on our security of supply (FCO et al 2004: 15)

Improvement in the reform of Russian gas was therefore also part of UK foreign policy - to be actively encouraged by the UK but mainly, as mentioned above, through multilateral relations (DTI 2003: 5).

Russia was at this time, therefore, recognised the key direct fossil fuel provider going forward for Europe, and potentially through the MOU to extend the Nord Stream pipeline, the UK (DTI 2003: 80). The rate of production and export growth in Russian oil and gas had been significant and was already starting to fill the European supply gap as North Sea supplies dwindled. Although the emphasis in the 2003 White Paper was on supply diversity, the reality was that Norway would be providing the lion's share of UK gas, with Russia coming second (Kirkup 2006).

3. Russia Energy Policy Reforms:

UK energy policy in 2003-2004 had been reconsidered in order to assess the risks of becoming a net importer and to better facilitate a lower-carbon energy system, but without much change to the instruments of policy or the institutions of governance. A small degree of re-politicisation of energy had taken place as evidenced by the direct, albeit somewhat sanguine, Cabinet Office Energy Review in 2002 but energy was by no means considered at this point to be 'in crisis'. In retrospect, however, the UK's timing could not have been worse – over the course of the next few years oil and gas prices rose considerably and experienced a high degree of volatility, demand was continuing to escalate from India and China, and the Russian Federation renationalised its oil and gas industry.

This section will, in brief, summarise events in Russia around the middle of the 2000s, which this paper argues acted as catalysts in the process of change to UK energy policy. Russia's actions alone did not prompt UK energy governance changes, but they did contribute to a deep sense of uncertainty and constituted a challenge to the UK policy of encouraging international energy liberalisation.

¹⁶ It is worth noting that the Caspian Basin is not, at this stage, emphasised as a key fossil fuel producer as opposed to later policy documents.

¹⁷ In her 1998 book in the history of Russian relations with the West Caroline Kennedy-Pipe ascribes this, among other things, to differences in worldviews and values (Kennedy-Pipe 1998)

¹⁸ 'Russia has the largest gas reserves, with around a third of the world's total and has been exporting gas to Western Europe for over 30 years without interruption.' (DTI 2003: 79)

3.1 Putin and Russian Ideas:

Putin's first few years in office are sometimes referred to as having been an exercise in watching and learning (Lo 2002). As his second term in office progressed, however, it started to become clear within the UK that his ideas for political management bore more resemblance to Russia's long-standing, more state centric and collectivist traditions (Rutland 2006: 17; Zimmerman 2002: 149).

It is now more widely understood that Vladimir Putin's goals were, understandably, to improve Russia's poor economic and international political position. Within a dissertation, attributed to Putin, it is argued that Russia's national resource sector could be utilised to bring about such economic and political recovery (Balzar 2006).¹⁹ This dissertation declares that '... (t)he main reserve to, in the near future, make Russia a great economic power with a high living standard for the majority of the population is maximum support for the fatherland's processing industry based on the extractive complex.' It goes on to highlight the potential role for natural resources in facilitating Russia's re-entry into the world economy (Putin in Balzar 2006: 50).

It could be argued that the subsequent practical implementation of a more top down form of governance in Russia has been facilitated and underpinned by widespread popular ideas about the importance of a leader with 'a strong hand'. These ideas have in turn been tied up with re-establishing Russian, or particularly non-Western, identity and Russia's place in the world. Such popular ideas have been identified through a number of sociological surveys that took place in Russia from 1995 to 2006 (Smith 2006; Zimmerman 2002). Needless to say, the popular and elite dominance of these sets of ideas stands in almost complete opposition to institutional norms in the UK, and some other OECD countries.

3.2 Oligarchs and the Yukos Affair

The first major blow to UK's perceptions about Russian energy and about the international political economy of energy was dealt by the imprisonment of Mikhail Khodorkovsky in 2003 and the subsequent seizure of Yukos assets. As discussed above, the central tenet of UK's energy foreign policy in 2003-4 was the internationalisation of liberal energy, particularly gas, markets (DTI 2003; FCO et al 2004). Russia's re-nationalisation of the energy sector, made apparent in the UK at the time of the Yukos affair, stood as a direct challenge to this core strategy.

On the 25th October 2003, in the run up to the December elections, one of the more politically involved oligarchs, Mikhail Khodorkovsky, was quite dramatically taken into custody on a charge of fraud. Khodorkovsky was the CEO of the Yukos Corporation which subsequently had a large portion of its stock seized by the Russian Prosecutor General's office to cover \$2bn of back taxes (Brill Olcott 2004: 11). Other Russian business people were arrested at this time on charges also of fraud. Less than two months after the very public, and dramatic, arrest of Khodorkovsky the Putin administration won the general election with a comfortable margin. This attests both to the unpopularity of oligarchs and to the popularity and degree of acceptability of relatively 'statist' ideas in Russia.²⁰

The Yukos affair, and the subsequent partial re-nationalisation of oil and gas assets, and confirmation of Transneft's transport monopoly, had many repercussions.²¹ This is partly because it represented a huge reversal from the path of liberalisation that some OECD countries, particularly the UK, had assumed Russia was on, and the assumption that Russia would become a relatively reliable and dependable large gas and oil supplier. The Yukos affair and Russian energy company re-nationalisation shocked the West out of the relative complacency of the post-Cold War era.

3.3 Investment Conditions

Alongside re-nationalisation there was also a phase of re-regulation that effected terms for foreign investment in the Russian oil and gas industry. Restrictions on foreign investment had only recently been lifted, by the Decree of 4th November 1997, but in 2003 major changes were made to the Production Sharing Agreements law effecting conditions for foreign companies investing in, accessing and developing resources (Locatelli 2004: 11). Only 30%

¹⁹ There is a high degree of scepticism among UK and Russian analysts that Putin actually wrote this dissertation. This 'dissertation' is, however, highlighted here as ideas about natural resources expressed in it later become policy for Russia.

²⁰ It was widely claimed that that oligarchs running natural resource companies were asset stripping and not reinvesting in Russia (Locatelli 2006).

²¹ In December 2004 Yuganskneftegaz, the most valuable Yukos asset, was taken over by the state-owned Rosneft and in October 2005 Gazprom, the 51% state-owned gas monopoly, bought Sibneft, Russia's fifth largest firm (Light 2006: 20)

of Russian oil reserves could be developed under the PSA regime and by 2003 28% of Russian oil was already covered by a PSA (Locatelli 2004: 11). Both re-nationalisation, indirectly, and restrictions on foreign investments, directly, had implications for the UK's concerns about investment – especially given their firmly held ideas about the inefficiencies of state level interference in markets.

Other events took place around this time, Royal Dutch Shell and ExxonMobil faced 'arbitrary' re deployment of development licences (Locatelli 2004; Bradshaw and Bond 2004). In addition, international companies felt that they were running up against institutional instability and lack of transparency in the system of allocation of exploration and development licences by the Federal State and the Regions (Locatelli 2004: 12). The TNK-BP PSA formed in February 2003 was, however, left relatively unaffected by these events.

These actions, combined with the renationalisation of Russia's energy prompted a good degree of uncertainty about the conditions for energy investments and about the possibility that resurgent energy nationalism would result in underinvestment going forward. This in turn impacted on market prices for oil, and by association, gas. It is sometimes observed that when Vladimir Putin started as Russian President a barrel of oil cost around \$20 but by the time he became Prime Minister oil was trading at around \$140/bbl. Oil price hikes and volatility cannot be ascribed to Russian actions alone, Hurricane Katrina and renewed fears about the Middle East in 2005-6 also prompted volatility, but prices really started to rise at the time of the Yukos affair.²²

3.4 The Russo-Ukrainian Gas Transit Dispute 2006

Although Russia had exhibited many signs by this stage of what is referred to in the West as 'resource nationalism', it was contended among analysts, prior to the Russo-Ukrainian gas dispute, that Russia could and or would not wield its apparent gas weapon by turning off the gas (Gotz 2004: 2). As we have seen from UK energy documents Russia had been considered as an increasingly important and reliable supplier (DTI 2003: 80). This view was widespread in Europe not least due to the proximity of Russian gas, the already existent pipeline system, Russia's signature to the ECT and the positive prospect of Nord Stream increasing diversity of supply route into Europe, as well, potentially, as the UK.

The Russo-Ukrainian gas dispute, particularly the deliberate reduction of gas throughput in the pipeline system, surprised most European observers and instigated a profound re-think of energy security and of energy policy.²³ Whereas much emphasis had previously been placed on energy security as being based on expanding liberalisation and market norms, and on the associated growing interdependency between countries, post the Russo-Ukrainian transit dispute geopolitical arguments about dependency were once again prominent. Importantly, for Russia, it also prompted a re-think within Europe about Russia as dependable supplier and about gas as the transition fuel.

3.5 International Re-politicisation of Energy

What is clear from the above brief description of Russia's profoundly altering energy governance system is that these changes stood in direct opposition to what the UK, and the EU, had been trying to achieve in terms of expanding liberal, transparent market rules globally. European fears about Russia's energy policy began with the arrest and trial of Mikhail Khodorkovsky but were magnified intensely in the period immediately after the Russo-Ukrainian gas dispute (Light 2006: 20). By the end of 2006 energy had become a hot topic once more both within the UK and internationally. 'Energy security' had been introduced, for the first time since the 1970s crises, as an important subject for political discussion on the meeting agendas of the G8 and EU Summits, as well as at NATO.

What ensued was an escalation of geopolitical posturing between the EU and Russia. When the EU talked of reducing dependence on Russian gas going forward by developing Caspian Basin energy and transport routes, Russia responded with claims about expanding their exports to the increasingly hungry Asian markets (Boussena and Locatelli 2005: 21-22; Sevastyanov 2007: 4). Russia continued to extend its influence through the Caspian and Central Asian energy sectors via state owned energy companies (Boussena and Locatelli 2005: 14). Russia's significant delay in ratifying the ECT started to raise concerns about this treaty, which was important precisely because it contained both producers and consumers for the first time, and its survival.

²² See this chart of oil prices: <http://tonto.eia.doe.gov/dnav/pet/hist/LeafHandler.ashx?n=PET&s=wtotusa&f=w>

²³ Up to 80% of Europe's gas arrives through the Ukrainian pipeline system. To get a clearer picture of the role of pipelines in supplying Europe's gas please see: <http://search.atomz.com/search/?sp-q=maps&sp-a=sp10029401&sp-p=all&sp-f=ISO-8859-1>

Moreover, differing perceptions of Russia and energy within Europe had resulted in growing internal EU conflict about energy (Youngs 2009). These differences of opinion over energy and Russia meant less support for the EU's emerging plans to develop and implement an integral EU Energy Foreign Policy.

4. The Shifting UK Energy Debate

From the UK perspective, informed by and embedded within such a distinctly liberal framework, it must have been difficult to consider such changes to Russian energy policy as being anything but simply wrong, if also challenging. In 2006-7 there remains a, seemingly stubborn, commitment to leaving the market system in place but the assessment of international energy risks, however, alters substantially. A plethora of new policy documents and discussion papers are produced on energy at this time and certain policies pursued were decidedly not neoliberally informed.²⁴ All in all, from this time forward the UK Government becomes more directly involved in debating energy, in international energy policy and in considering requirements for energy security alongside climate change targets. Energy becomes a relatively re-politicised partly as a consequence of it being perceived, once more, as a potential national security threat.

4.1 The Energy Crisis and Debate

What ensued in 2006 in the UK was a debate about energy the like of which had not been witnessed since the 1970s. Both elite and public debates witnessed a growing proportion of geopolitical understandings of energy – this more than overt in media portrayals of Russian nationalism and statism as representing a threat to the UK way of doing things. In this way an energy crisis caused by the 'Russian Bear' and its overt use of natural resources is constructed – conveniently laying the blame for any inconsistencies being experienced between the goals of UK policy and outcomes on the actions of others. This might seem a somewhat simplistic narration of the mounting energy crisis but often crises are most effectively narrated and understood by the most 'sellable' and/or believable story offered (Hay 1999).²⁵ Clearly notions of Russian threat had been an integral part of the British psyche for half of the 20th century, during the Cold War, and as such for much longer than the brief spell of thinking about Russia as liberal and non-threatening.

4.1.1 Re-politicisation of Energy: Elite Circles

The energy sector, increasingly understood in terms of (in-)security, started to top UK political agendas once more. The 2006 Energy Review refers to energy security as being one of two immense challenges facing energy policy, and in the same year Tony Blair used his annual Lord Mayor's speech to highlight energy security concerns (DTI 2006: 4). Earlier in the 2005 EU Summit at Hampton Court the issue of energy security was formally put on the agenda (Offerdahl 2007). In his paper prepared for the conference, the ubiquitous Helm, characterised energy as becoming an issue of national security (Helm 2005: 2). Helm's paper specifically refers to an increasing dependence on Russia for supplies of, particularly gas, and as a source of threat to the security of EU and, by extension, UK energy supply.

What then occurred in political circles was a complete re-assessment of the global energy markets that the UK was once more entering as importer. A plethora of new papers, debates and policy documents on energy ensued. The DTI White Paper of 2007 referred directly to:

...heightened awareness of the risks arising from the concentration of the world's remaining oil and gas reserves in fewer regions around the world, namely in the Middle East and North Africa, and Russia and Central Asia (DTI 2007: 6)

Whilst this geological trend had been noted in the 2003 White Paper, it was more as passing comment as opposed to the 2007 assessment of it presenting a serious risk.

The UK's increasing reliance on imports of oil and gas is now understood to be more risky in a world where energy demand is rising and energy is becoming more 'politicised' (DTI 2007: 19). This new understanding of political risks and their relation to the energy sector is also evident in the very different terminology used to refer to energy. The House of Commons 2007 paper about energy security directly refers to Russia using its 'control' of energy resources as a 'tool' of foreign policy to further their own strategic interests (House of Commons 2007: Summary). Not only does the House of Commons debate indicate increased Government involvement in the debate about energy, but also the tendency increasingly to consider energy in geopolitical, or traditional security, terms. Even

²⁴ Include list of policy documents: Secretary of State's Report to Parliament 2004 and 2005; Energy Act 2004; Energy White Paper 2007; FCO et al Energy Report 2006;

²⁵ 'The thesis of overload and ungovernability reminds us that to prove 'successful' in narrating a crisis, an account must be simple, flexible and compelling and not necessarily complicated, sophisticated or even accurate.' (Hay 1999: 100)

the Conservative shadow Secretary of State for Defence entered the debate with a report on threats to UK energy security entitled 'Over a Barrell: the Challenge of Defence and Energy Security' (Fox 2006).

4.1.2 Geopolitical Perceptions of Energy: UK Media

The way in which Russia's actions, and the growing sense of uncertainty about energy, were portrayed in the media were even more geopolitical in their tone. The notion that Russia had the ability to negatively impact Britain's energy security and to influence world politics using natural resources was widespread – implying a close association between material resources and power. It could be argued that the way in which the Russian energy story was covered for public consumption in the UK helped to create the idea that energy was in crisis.²⁶

Well regarded newspapers ran stories on Russia threatening and 'bullying' Western Companies (The Times, September 22nd 2006), and of Russia now carrying a 'threat' rather than a solution, as had previously been assumed, to energy security in Europe (FT, Friday April 21 2006). Articles were replete with Cold War terminology and reference to Russia's emerging position as an energy superpower based on the assumption that the possession of large quantities of oil and gas qualified a nation to be internationally powerful (FT, Friday April 21 2006; Rodgers 2007: 5).

This combination of price increases at the pump around the mid 2000s and widespread fears about Russia's ability and intention to use the 'oil weapon' resulted in a growing pre-occupation with the notion of energy dependence, rather than the previously dominant notion of interdependence in energy.

4.2.3 The Sustainable Energy Argument

Climate groups, at this time, started to draw on these new fears about energy dependency and unstable foreign suppliers in order to underpin their arguments about the immediate need for investment in domestic renewable energy. The strength of this rather historically established argument, based as it is on fears about others representing a threat, arguably lent an extra degree of urgency to the debate about what needed to be done about climate change. Climate groups had long been claiming that the issues needed to be actively addressed now, rather than at some future unspecified date.

In 2006 renewed efforts were made to address the need to reduce CO2 emissions – sustainable energy was increasingly seen as the panacea to all energy problems, security and climate change (Blair in DTI 2006: 5). Four out of the six solutions offered in the 2007 Energy White Paper to solve the problem of energy security were related to switching to a low carbon energy system (DTI 2007). A Climate Change Programme was introduced in 2006 that required an annual update on climate issues and what the Government was doing to address them, to be presented to Parliament (DEFRA 2006). It is notable that the overall responsibility for climate policy still seemed to lie with DEFRA, not the DTI.

4.1.3 Academia and the Emergence of Critical Analysis

It should also briefly be mentioned at this point that in addition to elite and media debate about energy at this time there was also a growing degree of acknowledgment, within academia, that energy as a subject required attention. Whereas UK academic analysis of energy had been very much fixed in neoliberal (micro-)economic terms more new perspectives on energy started now to emerge. Some emphasising energy security risks to underpin sustainable energy arguments (Plesch et al 2005), others started to question the capabilities of the UK market-oriented energy policy paradigm to address energy security and climate change challenges (CEPMLP 2006; Mitchell 2008).

Notable among these is the CEPMLP 2006 report on energy security commissioned by the Economics and Social Research Council of Great Britain (ESRC). This report concluded that analysis of energy at UK academic institutions had been vastly dominated by economic perspectives and too focused on domestic, over international, variables. It also noted that energy is once more being treated as a politicised, 'security' issue:

Security of energy supply is once again high on the agenda of governments in the OECD countries, as well as for other governments of energy importing countries. It has played a significant role in the content and indeed the timing of a major energy review in the UK in 2005-2006 (CEPMLP 2006:)

²⁶ Various new institutionalists, Colin Hay and Mark Blyth among them, have written about the role of public, media, debate in re-politicising a subject and in bringing policymakers to understand that there is a crisis (Hay 1999: 100).

This report was also one of the first to explore some of the less than positive impacts of energy liberalisation on the UK energy system. It suggests not only that the UK has experienced a loss of surplus energy capacity but further that this loss is as a direct consequence of the liberalisation process of the 1980s – private companies are interested in returns, not capacities in the national energy system (CEPMLP 2006: 6). It further notes that liberalisation, and the process of depoliticising energy, have resulted in the reduced capacity of the UK Government to address national energy security concerns.

5. Alterations Within the Energy Policy Paradigm

The question at this point is how the changing debate about energy, and altering understandings of what risks were being faced by the UK, played out in terms of energy policy. What is first apparent when comparing energy policy documents between the 2003-4 and 2006-7 periods is the switch of focus from needing to ‘de-carbonise the economy’ to needing to ‘meet the energy challenge’. The goals of energy policy remain the same, but there are now two principle areas of concern: delivering secure and reliable energy to UK consumers, in addition to de-carbonising. In the place of relatively sanguine remarks about the international energy context, reference is now made to ‘abuse of market power’ and escalating ‘risks to energy security and prices’ (DTI 2007: 7). This more overtly geopolitical perspective on energy, as a security issue, arguably then led to increased direct Cabinet level and Parliamentary involvement and to a new emphasis on domestically produced sources of energy.

5.1.1 Increased Cabinet Level Involvement

What is important to remember when considering the growing level of Government involvement in debating about, and policymaking in, energy at this time is the comparison to what had gone before. Although UK Government involvement in energy in 2006-7 might be described as paltry in contrast to direct Russian state involvement, compared to what had gone before it could be described as a step-change. Growing Government involvement could also be negatively compared with the ideas that the UK openly prescribed to about keeping direct state interference in energy to a minimum.²⁷

In July 2004, in the immediate aftermath of the Yukos affair, there was another new Energy Act that allocated to the Secretary of State for Trade and Industry a duty to report annually on energy matters to Parliament. In the absence of an Energy Ministry, or of a Secretary of State for Energy reporting directly to Cabinet, the responsibility for the monitoring of and for policymaking in energy rested with the DTI. Energy was not the first objective of the Department responsible for it - the DTI’s principle emphasis was to support British businesses. Asking the Secretary of State for Trade and Industry to report regularly on energy is an early sign of growing concern about meeting policy objectives and takes energy governance one step closer to Government.

The House of Commons paper on energy of 2007 can be seen as further evidence of the elevation of the energy crisis debate to Parliamentary level on a more ongoing basis. This paper referenced the Government’s open acknowledgement in 2006 that they needed to reconsider and refine energy policy. This realisation initiated the second energy policy review which ultimately then results in another round of policy documents including the Energy White Paper of 2007 (House of Commons 2007: Summary).

Growing state involvement is significant for a number of reasons, not least because it starts to reverse the active de-politicisation process of the 1980s and 1990s. If we think of UK energy governance as being on a continuum between entirely state managed and entirely market led, then this period post Yukos and the Russo-Ukrainian transit dispute shows the market moving towards the state.

5.1.2 Gazprom and Centrica: Re-enter a more Realist UK Policy?

Fossil fuel dependency and the uncertainties associated with importing from unstable energy producers were soon augmented by a growing sense of vulnerability associated with non-EU, particularly Russian, companies’ interest in purchasing UK energy providers. Although in a liberalised energy system questions of who owns energy companies and who provides supplies are for markets to decide on, emerging political practice in the UK contradicted this idea.

The House of Commons energy security paper summarises well this growing sense of vulnerability, present at the highest levels, here interestingly associated with liberalisation:

... liberalisation in Europe has made companies potentially vulnerable to cross-border mergers and takeovers from outside the EU, and this development seems to have taken Europe by surprise. In the UK there was much

²⁷ This is a kind of view has been expressed in interviews with DECC and FCO personnel.

speculation in 2006 that Centrica, Britain's largest energy supplier, could be bought by Gazprom, the Russian state gas company; and UK Coal has been the target of interest by the Russian minerals group, Kuzbassrazrezugol. At the same time, political considerations have entered British energy companies' commercial relationships abroad. (House of Commons 2007: 1-2)

Nowhere were these kinds of concerns about politics interfering in private sector matters more clearly demonstrated than in the Centrica-Gazprom affair which the above quote references. It was widely rumoured in the UK press in 2006 that Gazprom was interested in purchasing the UK's premier integrated energy company, Centrica. What was remarkable was the widely reported response of the UK Government. In 2006 the Financial Times ran an article which indicated that Gazprom had been informed, in no uncertain terms, that if they went ahead with their bid for Centrica then UK legislation would be altered to prevent its success (Eaglesham in the FT 2006).²⁸ Likewise in March 2007 the Observer ran an article claiming that the Foreign Office had advised Centrica Energy not to buy gas from Iran, a move which, in a cruel about turn, the Russians overtly regarded as politics meddling in the private sector (House of Commons 2007: 2).

5.1.3 Alterations to the UK's Projected Fuel Mix

There are two primary changes to the DTI's policy on fuel mix that become apparent in the 2007 White Paper. Each of these is based on the underlying idea, referenced above, that domestic, sustainable production should prove one of the most direct antidotes to reliance on unstable, non-EU producers. Firstly, in direct contrast to the opinion expressed in the 2003 White Paper about state involvement in deciding on fuel mix, the 2007 White Paper suggests a greater pre-occupation with what policy and regulatory changes might need to be enacted to support the right fuel mix going forward. The 2007 White Paper includes long sections on what might need to be done to facilitate production of domestic energy sources such as nuclear, coal and renewables, primarily in the form of wind.

The second primary change is in the active emphasis placed on nuclear and coal going forward. Whereas the 2003 papers had not ruled either of these two out of the UK's future energy mix, this changes in 2007. Alistair Darling, Secretary of State for Trade and Industry, is thus quoted:

*Our analysis suggests that, alongside other low carbon generating options, a new generation of nuclear power stations could make a contribution to reducing carbon emissions and reducing our reliance on **imported** energy. (House of Commons 2007: 3)*

The presentation of nuclear as a 'low-carbon' option is evidence of how far UK climate change responses have come from the original ecological arguments. It seems that the severe environmental side-effects of nuclear began to seem less important in 2007 than the urgent need to secure energy security through increased domestic production. This could be presented as further evidence of Bernstein's arguments, mentioned above, about the liberal-environmental compromise.

The third change in fuel mix expectations is the emphasis on other indigenous supplies that had been de-emphasised previously. The official line was to maximise '...economic production from our domestic fossil fuel reserves...' and this applied both to North Sea oil and gas and coal production (DTI 2007: 20). These domestic industries would be 'maximised' using the government's regulatory powers if necessary (Bird 2007: 17). A new Coal Forum was planned in 2006 to bring together stakeholders within the industry to decide on opportunities for increasing coal production, particularly via Carbon Capture and Storage (CCS).²⁹

What is also notable from the growing emphasis on the role of nuclear and coal is the relative reduction in emphasis on gas as 'the transition fuel'. Perhaps one of the primary outcomes of Russia's dispute with the Ukraine had been to cause countries, including the UK, to re-think the degree to which they would become, in future, dependent on gas for electricity production.

5.2 Changes in Foreign Policy:

Although ultimately the commitment to furthering agreement on global norms for energy, and climate change, remained in 2006-7 the heart of Government's energy foreign policy, this was within the context of a growing role

²⁸ The Gazprom-Centrica 'affair' led to more escalation of rhetoric from Russia about finding alternate consumers for its energy. Alexei Miller is reported to have responded by saying '...that unless Europe was more responsive to Gazprom's ambitions to acquire downstream assets... Gazprom would take its business to China and North America (Light 2006: 20).

²⁹ Which in turn is based on the economic viability of 'clean' technologies such as Carbon Capture and Storage (CCS) that even the strongest supporters consider to be years away (The Economist 2008).

for the FCO and energy foreign policy as a whole. Whilst prior to 2006-7 energy policy is not a discrete function of foreign relations a wider ranging energy foreign policy starts to emerge. New investment was provided for improving analysis and understanding of international energy and security at both the DTI and FCO.³⁰

The international aspects of energy, and security, are also overtly recognised in the 2007 White Paper in that an international energy strategy is now recognised as a requirement:

Many of these elements have an important international dimension. And in this White Paper, we are bringing them together for the first time in an integrated international energy strategy which describes the action we are taking to help deliver secure energy supplies and tackle climate change. (DTI 2007: 8)

The ‘elevation’ of energy from just another sector of the economy, to a subject of national concern can be contrasted to the previous tendency to ‘remove’ energy from politics and to understand energy as just another sector of the economy.

5.2.1 Russia as Global Security Concern:

Direct links can be found between tensions surrounding international energy policy and Russia. In 2007 the Foreign Affairs Committee (FAC) produced a report entitled ‘Global Security: Russia’. In this report the various ways in which Russia represented a global threat, including through threats to energy security, are outlined and policy recommended. It broadly concludes that

... the Government... continue to encourage its EU partners to take a robust and united approach to dealing with Moscow, in the energy field and beyond. (FAC 2007: 14)

Much can be taken from this document, not least the growing emphasis in political circles on the risks Russia represents to energy security. What can also be understood from this document is the ways in which the market-oriented paradigm, and its institutionalisation over time in the UK, caused the UK to interpret Russian actions in certain ways. As an example, the report emphasises the need for bi-lateral negotiations with Russia over energy supply to be discouraged ‘... particularly as any agreements should be between commercial undertakings and not between Governments.’ (FAC 2007: 15). Therefore the idea that energy should be traded on free markets between interdependent countries directly informs energy foreign policy to the extent that other ways of negotiating supply are understood as simply wrong.

5.2.2 The Caspian Basin:

In direct response to increased fears about Russia’s impact on global energy markets, the EU and UK pursued, in tandem a concerted strategy of encouraging and facilitating exports from the Caspian Basin to Europe. The Caspian Basin had been growing steadily in proven and probable oil and gas reserves over the course of the 2000s, and their relative proximity to Europe signalled this region out as a possible alternative supplier to Russia.

Although mention had previously been made about diversity of energy supply, both by source and geographically, in 2006-7 new emphasis is placed on the need to diversify geographically (JESS 2006: 7). In line with the new preoccupation with increased diversity, the UK actively supported the strategy of improving access to Caspian Basin resources. This was to be achieved both via support for the Nabucco pipeline and for progressive ‘...integration of the energy markets of the regions into the EU market.’ (BERR 2006: 29)

There are a number of points of note with regard to this strategy. The first is that, certainly in the medium term, the reality of the UK’s import picture was that it would be dependent mainly on Norway for both oil and gas (DTI 2005: 16). Thus new sources would have to be found, and particularly in term of gas, new infrastructure put in place as Norway’s resources also start to tail off as predicted.

The second, more importantly for the arguments of this paper, is that open support of Caspian resources by the UK Government, even if it takes place largely via the EU, is a direct departure from previously stated policy. In the 2003 White Paper the DTI had overtly explained that ‘...Government is not in a position to make decisions about supplies of energy’ (DTI 2003: 11). The hypocrisy of the UK, and EU position, on the Caspian Basin was not lost on Russian commentators (Hadfield 2008).

5.2.3 UK-Russia Energy Dialogue

Although not highlighted in any policy documents, the UK at this time also started up a new bi-lateral forum for negotiation with Russia in contrast to its previous preference for multilateral negotiation with Russia. In February

³⁰ This information was taken from interviews at BERR, 2007, and the FCO 2010.

2007 the first meeting of the new UK-Russia Energy Dialogue took place in Moscow. Clearly the UK already maintained dialogue with Moscow through traditional Foreign Office channels, and these had been used to communicate to the Kremlin the clear message post Yukos that growing Russian resource nationalism would result in disinvestment by international oil companies and investors in the Russian equity and bond markets.³¹ This position taken is remarkable in that it shows the extent to which UK energy policymakers believed in the role of the market in disciplining behaviour.³²

When ‘the markets’ did not punish Russian resource nationalism through disinvestment on any sustained basis it was felt that the UK’s bargaining position with Russia might be effected. International oil companies, even those such as Shell, which had had contracts renegotiated, continued to invest in Russian resources.³³ It was hoped, therefore, that the initiation of a direct dialogue with Russia would help to get the UK’s messages across to Russia about reforming the energy sector, and increasingly about improving energy efficiency and investment in new reserves.

5.3 *Emphasis on Competition and Markets Remains:*

Both energy governance and the way in which energy was publically understood had changed in a number of ways over this time period. Energy was increasingly understood as facing immense challenges, including energy supply security. The growing emphasis on geopolitical arguments, and the sense of dependence and in-security, had resulted in a major re-think of energy policy, resulting in the first international energy strategy being produced. The UK Government had become more involved in the energy sector both through allocating resources to reviewing the sector and through a couple of more realist informed policies.

The overall framework for governing energy, however, had not changed much despite the contradictions that had started to emerge between the four new policy objectives, and actual outcomes. Part of the reason for this is that the challenges being faced by the UK were understood as being externally generated, and not to do with the market-oriented energy policy paradigm. The problem remained that of other countries not following a proper course of privatisation and liberalisation resulting in a lack of transparency and institutional underpinning (JESS 2006). UK policy and related documents reaffirmed on several occasions the commitment to free markets and competitive energy, as well as its intention to encourage further liberalisation of the Russian energy sector (FCO 2006; Kirkup 2006; DTI 2007).³⁴

6. Conclusion

The fast changing political economy of energy in Russia over the mid 2000s had an impact on the way that energy was perceived and governed in the UK. It would be naive to suggest that Russia’s new energy and foreign policy might have impacted UK energy policy to the degree that it did had it not been developed at the same time that the UK was becoming an importer once more. What further exacerbated the effects of Russia’s actions on the UK was the particular international political and economic context of altering energy supply and demand patterns.

Public and political perceptions of the arrest and imprisonment of Russian businessmen, of energy assets being re-nationalised, of foreign investment opportunities becoming limited and of the gas supply to Europe being reduced were very negative. This is not surprising given the ideational lenses through which these events were viewed. The UK had long been one of the biggest supporters of the drive to establish international free, competitive and transparent markets in energy. Russia now stood in the way of this project. The idea that energy had entered a period of crisis became widespread in the mid 2000s and this crisis was narrated in geopolitical terms painting Russia as the aggressive energy superpower and the UK as vulnerable to its threat. This kind of narrative had been dormant in the UK since the end of the Cold War, but it had deep resonance with the past and this lent it a sufficient degree of legitimacy.

³¹ This information is taken from interviews with FCO analysts in 2007 and 2008.

³² This position was partially, however, underpinned by the fact that the UK had become the largest single foreign investor in Russia (Lee 2007).

³³ Many industry participants consider Russia to be one of the better countries to invest in energy and the FAC report of 2007 also recognises this (FAC 2007).

³⁴ See also 3rd party reports, commissioned by the DTI, to re-argue the case for liberalisation of, particularly, gas markets (Ernst and Young 2006; DTI 2005).

Both the challenges facing UK energy, and the way in which these challenges should be met, were actively re-thought at this time demanding a greater degree of Government involvement in the sector, as did the widespread media coverage. Emerging notions of the UK as dependent on unstable foreign suppliers allowed ideas about boosting domestic production to gain political and public traction. Climate change groups put this to good use to underpin arguments about the urgent need for development of and investment in domestic renewables. Russia and gas were no longer seen as positive attributes of energy supply security but as part of the newly re-constituted problem of international supply instability and energy in-security. Some of the political methods used in the UK around this time to ensure diversification away from too much dependence on imported energy and to defend British business from Russian company takeover were decidedly non-liberal.

The question of whether a paradigm shift was, at this time, starting to evolve within the market-oriented energy policy paradigm is a question, perhaps, of degree. There is no doubt that the institutions of UK energy governance, both the ideas informing it and the policy bodies employed, remained largely the same. The various departmental documents that were brought out at this time, specifically addressing security of supply questions, concluded that the markets could be relied upon to meet such challenges, within the context of a clear government regulatory framework.³⁵ However, it was also argued at the time that the market-oriented tendencies of UK energy governance were under strain as a result of threats to ‘energy security’ (CEPMLP 2006: 5).

To talk in state-market terms, the level of proximity between state and energy policymaking had narrowed and can be understood in these terms as an area experiencing re-politicisation. In addition the increased amount of political resource now being allocated to thinking about energy was starting to result in a growing realisation of the sheer size of the problems, particularly with regard to climate change, being faced. Sustainable energy was increasingly the answer proffered not only to need to reduce CO2 emissions but also to the provision of energy security.

Arguably, however, by not yet making any significant changes to energy policy, which was already not delivering on objectives, even more contradictions would start to emerge between stated objectives and outcomes. There were a number of overt flaws principle among them was the contradiction between relying on sustainable energy sources to meet CO2 reduction targets and the other social objectives of energy policy, namely tackling energy poverty. Without significant government support, both in terms of regulation and financially, for both renewables and energy poor households these two objectives are unlikely to be squared away. The urgent need for investment in both traditional and renewable energy sources and technologies remained, in addition, a considerable and unaddressed problem for energy policy (CEPMLP 2006: 18).

(Approx 10,000 words)

³⁵ ‘(1) the phase of liberalisation beginning in the late 1980’s has had a seminal effect on the functioning of energy markets, especially with respect to the loss of surplus capacity (and other comfort mechanisms) built up a generation ago,’ (CEPMLP 2006: 6)

Principle risk from UK perspective: ‘The need to ensure an adequate investment in infrastructure.’ (CEPMLP 2006: 18)

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