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Russia's Arctic energy policy

ARCTIC GIMMICKS

The Arctic is widely presented as the object of a geopolitical race for natural resources, oil and gas in particular, with Russia as the main driver. Russia is often portrayed as taking an expansionist and militarist stance in a mad dash to grab territory and thereby energy resources in the Arctic, whether in relation to Norway in the Barents Sea and Svalbard, or Canada and Denmark at the north pole.

A case in point is the planting of a flag on the seabed under the north pole by Russian scientists in 2007. In the west this was often described as an underwater land-grab demonstrating Russia's imperialist and expansionist approach to the Arctic.

In western coverage of the event there was little mention of the fact that it is common for explorers to plant their national flags when they reach

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difficult targets—Mount Everest, the south pole, the north pole, the moon, and so on. Much coverage also ignored the fact that Russia (unlike the US and several other countries) has ratified the law of the sea convention and appears to be trying to promote its Arctic interests within this legal framework, including the submission of continental-shelf documentation to the UN to substantiate its territorial claims.

Western commentators also tend to overlook similarities between the Russian approach and the approaches of their own countries to the Arctic. The following case serves as an example. In January 2008, only half a year after the infamous flag-planting, Norway's Prime Minister Jens Stoltenberg went on an expedition to Antarctica. He stopped on Dronning Maud Land and emphasized Norway's claim to it, although this claim is not recognized by many other countries. The territory is on the other side of the planet and there has never been a permanent Norwegian settlement there, except for Norwegian polar scientists carrying out research. A television crew also filmed Stoltenberg settling in for the night in a polar sleeping bag in a tent at -19°C, demonstrating his youthfulness and physical capability. The trip was widely covered in the Norwegian media, without any critical questions concerning the prime minister and his politics, or Norwegian Antarctic policy. Upon his return, Stoltenberg was interviewed on the main Norwegian television channel, which is fully state-owned. The venue was Anne Grossvold's well-established talk show, in which the presenter establishes a friendly and intimate tone with her interviewees and asks slightly personal but not overly critical questions. The show has become an excellent opportunity for celebrities to promote themselves. Overall, the media coverage of the Antarctic trip was a one-sided celebration of Norwegian prowess in polar exploration and science, a unique opportunity for the personal political promotion of Jens Stoltenberg, and perhaps a celebration of Norway's macho-oriented polar exploration traditions. It was also a way of revitalizing Norwegian territorial claims in the remote Antarctic.

The point here is not to criticize Stoltenberg as a politician or his Antarctic visit and its media coverage, but rather to show that the Russian flag-planting incident at the north pole is not unique. In both in the Stoltenberg and Russian flag-planting cases, the opportunity to use government resources (including government-controlled media) to promote individual and sectoral interests for a domestic audience was at least as important a driver as any international political agenda.

RUSSIA'S ARCTIC STRATEGY TOWARDS 2020

Of course polar policy does not consist solely, or even mainly, of flag-planting and talk-show coverage of prime ministerial expeditions to Antarctica. Moving on from such gimmickry to more formal Arctic policy, what really is Russia's approach to the Arctic and its energy resources? To answer that question, we need to assess the main official Russian policy document on the Arctic, "Principals of state policy of the Russian Federation in the Arctic to 2020 and beyond." This document was signed by President Dmitry Medvedev in September 2008 and issued by Russia's security council in March 2009.¹

It is striking how similar the language and content of this document are to corresponding western policy proclamations on the Arctic. Natural resources are introduced early on in the text as the first of Russia's "national interests" in the Arctic (paragraph 4.a). The second national interest listed is "the preservation of the Arctic as a zone of peace and cooperation" (paragraph 4.b), and the third is "the protection of the unique ecological systems of the Arctic" (paragraph 4.c). The fourth is the promotion of the northern sea route as an international waterway within Russian jurisdiction (paragraph 4.d)—similar to the Canadian perspective on the Northwest Passage.

Russia's Arctic strategy emphasizes international cooperation and other politically correct points: the setting up of a regional system of search and rescue (paragraph 7.b); increased activity of Russian governmental organs and nongovernmental organizations in international forums (paragraph 7.e); mutually beneficial presence of Russia on the Svalbard-Spitsbergen archipelago (paragraph 7.f); improving the quality of life of indigenous peoples (paragraph 7.h); modernization of social infrastructure, including educational and health institutions; developing environmentally safe tourism (paragraph 8.i); removing anthropogenic pollution from the Arctic (paragraph 8.e); and research into the history, culture, and economics of the region (paragraph 8.e). The document uses modern western terminology like "clusters," "public-private partnership," and the Anglicism *imidzh* (image) (paragraphs 11.b, 11.a, and 10.g); it introduces the concept of "environmental security" [*ekologicheskaya bezopasnost*] and briefly notes the importance of taking into account climate change (paragraph 8.c).

In sum, the content of Russia's Arctic strategy is not only similar in content to western discourses on the Arctic, but even uses much of the

¹ "Osnovy gosudarstvennoy politiki Rossiyskoy Federatsii v Arktike na period do 2020 gode i dal'neyshuyu perspektivu," security council of Russia, March 2009.

same language. Many of the same concerns for soft values, cooperation, and the environment are expressed and given high priority. Of course, the document also includes references to military security, but these are in no way dominant: they represent a small part of the many policy signals given in the document. The most important of these points is in paragraph 8.b, which states that it is necessary to establish new military units to defend the Arctic part of the Russian Federation. Nothing is said about the size of these units.

Western coverage of this document, however, has presented it in a different light, heavily emphasizing these few military elements. Many of the reports carried by western media in the wake of the publication of Russia's Arctic strategy bore headlines like "Russia to boost troops to defend Arctic resources";² "Russia outlines Arctic force plan";³ and "Russia sends troops to frozen north to claim Arctic resources."⁴ The Canadian foreign minister, for example, responded to the document by stating publically that Canada "will not be bullied" by Russia on Arctic sovereignty.⁵ One commentator wrote:

At first, the document emphasizes the need to preserve the Arctic as a 'zone of peace and cooperation'.... The Russian document also touches upon sustainable development and environmental conservation.... Yet the fact that the Russian Security Council—a body charged with defining and engineering Russian national security policy—released the document is revealing, as it demonstrates that Russia's main priority in the Arctic is military development rather than socio-economic development.⁶

According to the logic of this commentator, it does not matter what the document actually says. If it is published by Russia's security council, it must mean that Russia's agenda is an aggressive military one.

As the brief examination of the contents of the Arctic strategy above shows, such one-sided western interpretations probably say more about

2 Dmitry Sovolyov and Guy Falconbridge, Reuters, 27 March 2009, www.reuters.com.

3 BBC, 27 March 2009, <http://news.bbc.co.uk>.

4 Tony Halpin, *The Times*, 28 March 2009, www.timesonline.co.uk.

5 Tobi Cohen, "Canada won't be 'bullied' by Russia in Arctic: Cannon," *Telegraph-Journal*, 28 March 2009, www.telegraphjournal.canadaeast.com.

6 Mia Bennet, "Russia plans military and economic development in Arctic," foreign policy blogs network, 31 March 2009, <http://arctic.foreignpolicyblogs.com>.

their authors than about Russian Arctic policy. Thus, we need to reassess our understanding of Russia's approach to the Arctic before embarking on a discussion of Arctic energy. The pertinent question concerning Arctic energy resources and Russia is not so much Russia's role as the driving force in a geopolitical race for the Arctic, but the extent to which international oil companies will get the opportunity to participate in that development. After a brief introduction to Russia's Arctic energy resources, I turn to this question below.

THE NORTHERNNESS OF RUSSIAN HYDROCARBONS

Over the past decade, it has been commonplace to refer to the fact that in 2000 the US Geological Survey estimated that 25 percent of the world's remaining undiscovered oil and gas reserves might be located in the Arctic.⁷ New estimates published in 2009 indicated that only 13 percent of undiscovered oil, but as much as 30 percent of undiscovered natural gas, might be located in the Arctic.⁸ This means that the Arctic energy resource story is mainly about gas. Furthermore, most of this gas is expected to be found in Russian parts of Arctic waters. Two thirds of the undiscovered gas are expected to be found in four areas, three of which are close to Russia's shores: the South Kara Sea, South Barents Basin, North Barents Basin, and the Alaska platform. The South Kara Sea, which is in fact the offshore section of the West Siberian Basin where the Nadym Pur Taz area is located, may hold as much as 39 percent of undiscovered Arctic gas, and is the most promising petroleum province in the Arctic.⁹

The vast majority of Russian oil-and-gas extraction is undertaken in the northern, Siberian, and far eastern parts of the country. There are also petroleum provinces elsewhere in Russia, such as the northeastern Caspian, but these are smaller. Over 80 percent of gas and 70 percent of oil reserves are in the Arctic part of the country.¹⁰ As if these estimates were not positive enough, some Russian scientists believe that they are in fact much too

7 "US Geological Survey world petroleum assessment 2000," Reston, VA, 2000.

8 Donald Gautier et al., "Assessment of undiscovered oil and gas in the Arctic," *Science* 324, no. 5931 (2009): 1175–79.

9 *Ibid.*, 1178.

10 Roderick Kefferputz, "On thin ice? (Mis)interpreting Russian policy in the high north," Centre for European Policy Studies policy brief 205, February 2010; S. B. Savel'eva and G. N. Shiyan, "Arktika: Ukreplenie geopoliticheskikh pozitsiy i ekonomicheskoe razvitie," *Vestnik MGTU* 13, no. 1 (2010): 115–19.

conservative, and see them as a US conspiracy to draw interest away from the Russian Arctic. As Kontorovich et al. have written about these figures, “such an estimate would greatly reduce the interest in future exploration activity in the Arctic Ocean. That is adverse because [it] misleads non-specialists and discourages investment in offshore ocean exploration and, as a matter of fact, has nothing to do with geological reality.”¹¹

Russia’s biggest export-earner by far is natural gas. And by far the greatest share of natural gas is produced in the northern part of west Siberia, in the Nadym Pur Taz area. The super-giant fields of Medvezhe, Urengoy, Yamburg, and Zapolyarnoye are responsible for over half of Russian gas production. Most of the fields in Nadym Pur Taz fields have been in use since the 1970s and are now in decline.¹² Compensation for the reduced flow is expected to come from fields located even further north. Russia’s petroleum sector has long been a largely northern and Siberian affair, but it will gradually be transformed into a more genuinely Arctic, and partially off-shore, enterprise.

It is not all that surprising that a substantial part of Arctic resources may be found in Russian areas, since a large chunk of Arctic waters belongs to that country. Whatever the outcome of the various existing and anticipated territorial disputes over Arctic waters, Russia, as the world’s largest country and the country with the longest Arctic shoreline, is bound to be the main Arctic power in territorial terms.

A LANDLUBBER GOES TO SEA

The Soviet Union carried out oil and gas extraction mainly on land. Since most of the energy resources were consumed within the Communist bloc and, from the 1970s, exported to contiguous countries in western Europe, oil and gas were also transported largely by land-based pipelines. The USSR was the world’s biggest country in physical terms (and Russia remains so today) and had the world’s longest network of gas pipelines. The Soviet petroleum industry, and after it the Russian one, specialized in the land-based extraction and transportation of oil and gas. The experience of its staff,

11 A.E. Kontorovich et al., “Geology and hydrocarbon resources of the continental shelf in Russian Arctic seas and the prospects of their development,” *Russian Geology and Geophysics* 51, no. 1 (2009): 3–11.

12 Jonathan Stern, *The Future of Russian Gas and Gazprom* (Oxford: Oxford University Press), 2005.

its infrastructure and machinery, and its science and technology all have been oriented towards land-based petroleum activities.

Moving further north entails working on the coast or at sea, which in turn will give rise to a series of challenges with which the Russian petroleum sector has relatively little experience. These include laying underwater pipelines, operating drilling rigs at sea, and cooling gas for transoceanic shipment as liquid natural gas.

In dealing with these challenges, Russian oil companies will be dependent upon, or at least stand to benefit from, the involvement of foreign oil companies in developing the necessary technology. This is often pointed out in the literature. For example, according to Savel'eva and Shiyani, about 60 "critical macro-technologies" contribute to making a country a major sea power. On 22 of these the US is the most advanced country, on eight of them Canada, seven Germany, five the UK, three France, and two Russia and Italy.¹³

The limitations on the northward expansion of Russia's petroleum industry are, however, a question not only of technology, but also of organizational capacity and capital. According to one ambitious estimate, the development of Russia's continental shelf will by 2030 require the building of infrastructure to extract and transport 110 million tonnes of oil and 160 billion cubic metres of gas annually. Merely in order to realize ongoing projects, it will be necessary by 2020 to construct about 60 new oil rigs and an even larger number of submarine installations, at a total cost of about two trillion roubles.¹⁴

While the need for advanced technology, capital, and organizational skills gives reason to involve more foreign companies in the extraction of northern oil and gas, two factors push in the other direction: resource nationalism and the continuing post-communist transition. Resource nationalism is often seen to ebb and flow with variations in the oil price. When the oil price is high, it is thought, resource nationalism tends to flourish in developing and middle-income petroleum exporters. Recent examples of this trend include the waves of nationalization in Venezuela, Bolivia, and Russia over the past decade as oil prices rose to new highs. According to this theory, when oil prices again subside, resource nationalism can be expected to do likewise. This creates an undulating movement that also affects the Russian approach to its Arctic petroleum frontier: when oil prices are high, Russian

13 Savel'eva and Shiyani, "Arktika," 118.

14 *Ibid.*

companies want to go it alone and are not keen on allocating a big role to foreign companies. Then, when prices fall, they become more humble and open to cooperation. This pattern has been observed in the cases of both Shtokman and Yamal.

The picture is further complicated by the fact that Russia is not only a middle-income petroleum exporter, but also a post-communist country still undergoing transition. One of the main aspects of the transition away from communism is Russia's openness to private capital, in terms of allowing both domestic and foreign private investors a role in the economy. Privatization in Russia has advanced by fits and starts, with the de-privatization of Mikhail Khodorkovskiy's oil company Yukos representing one obvious "fit." At the moment there is significant discussion of privatization, and it is expected that more state-owned companies will be privatized over the coming years. In parallel, strong voices are calling for greater involvement of foreign companies in Russia's Arctic oil and gas projects.

The intermeshing patterns of oscillating resource nationalism and varying attitudes towards private capital create a complex picture in Russia's northward energy odyssey, and this picture is further complicated by changing demand. Until the 2008-09 financial crisis, the emerging consensus was that a supply crunch was looming in the Eurasian natural gas market. It was thought that the failure of Russian companies to invest in the maintenance of existing infrastructure, and the exploration and development of new fields, was precipitating a mismatch between supply and demand. The financial crisis changed all of this, causing demand for Russian gas to collapse both within Russia and in its prime west European market.

SHTOKMAN VERSUS YAMAL

Two major Arctic projects are slated for development in the coming years—the Barents Sea Shtokman project and the Bovanenko project on the Yamal Peninsula. However, realistic time-scales, cost frames, and sources of financing for these two projects remain unclear. Nor is it known whether the projects will be developed in parallel or sequentially.

The Shtokman field is located in the Barents Sea off the coast of northwest Russia, relatively close to the Nordic countries. In contrast, the Yamal Peninsula is located further east in the Yamal-Nenets autonomous district in the northern Urals. Choosing between the two projects will have implications not only for Russia's internal economic geography, but also for

the linkages to be developed with other Arctic countries and with overseas markets through exports of liquid natural gas.

In an article published in 2006, Arild Moe cast the choice between Shtokman and Yamal as a battle between different groups within Russia's petroleum sector and within Gazprom.¹⁵ At the time, it appeared that the west Siberian lobby had won in pushing for Yamal, and that it was unlikely that any western companies would be invited to participate in the project at all. From the announcement of the decision to include both Norway's Statoil (then StatoilHydro) and Total (France) in the Shtokman project in 2007, Shtokman seemed to have gained priority over Yamal. This did not, however, indicate that the west Siberian lobby had been defeated irrevocably. After multiple postponements of the final investment decision on Shtokman, now slated for 2011, Yamal seems to have the upper hand again.

YAMAL

The Yamal Peninsula holds 16 trillion cubic meters of gas in proven reserves and another 22 trillion cubic metres of possible reserves.¹⁶ In addition, there are numerous fields offshore in the Kara Sea. The various Yamal gas fields, however, involve challenges no less daunting than Shtokman's. Railways and proper roads are nonexistent. Thawing and refreezing of the ground on the peninsula pose even greater challenges, since these changes may undermine transport infrastructure, gas extraction, and treatment facilities, as well as living quarters built for workers. Any onshore gas extraction would also infringe on the large-scale reindeer-herding operations of the indigenous peoples of the region. Finally, fully developing the Yamal fields would cost some hundreds of billions of dollars and could take up to 50 years.

On the other hand, Yamal is relatively conveniently located in relation to Russia's existing pipelines from Nadym Pur Taz to domestic and foreign markets. The accelerated ice melting now evident in the Arctic Ocean also opens opportunities for liquid natural gas marine transportation from the Yamal Peninsula and for the offshore fields.

It has been estimated that developing Yamal will require 50,000 workers, many of whom will be foreigners. There are already more than 19,900 non-Russian workers in Yamal, mostly engaged in the construction

15 Arild Moe, "Shtokman-beslutningen: Forklaringer og implikasjoner," *Nordisk østforum* 20, no. 4 (2006): 389–403.

16 Gazprom, 3 December 2008, <http://old.gazprom.ru>.

sector.¹⁷ One possibility aired by Gazprom is to carry out the Yamal project along the same lines as Shtokman, with a shortlist of foreign companies competing for minority shares in the project.¹⁸

Gazprom officially plans for the largest field on Yamal, Bovanenko, to come online by 2011.¹⁹ An underwater pipeline is currently being built across Baidarat Bay to transport the gas from the field to an existing trunk pipeline further south. In the ongoing development of the Yamal gas fields, Gazprom will have to choose between pipelines and liquid natural gas. If pipelines are chosen, this will necessitate an expansion of Russia's existing pipeline grid, and will most probably involve significant new international cooperation. If liquid natural gas is chosen, it will likely require the large-scale involvement of foreign companies, making Yamal a driver for international cooperation. It may well be that the pipeline and liquid natural gas solutions will be pursued simultaneously.

SHTOKMAN

The Shtokman gas and condensate field was discovered in 1988 and is estimated to contain 3.8 trillion cubic metres of gas and 31 million tons of condensate. It is located over 500 kilometres north of the Kola Peninsula, in the Russian part of the Barents Sea. Although commonly referred to as the world's largest offshore gas field, it is in fact less than a tenth of the size of the South Pars-Northern Dome field shared by Iran and Qatar. But although Shtokman is not the world's largest offshore gas field and is also smaller than Bovanenko, it contains more than twice as much natural gas as Canada's total known conventional gas reserves and is set to play a major role in north Atlantic energy supplies.²⁰

For several years, the US oil companies Chevron and ConocoPhillips, Norway's Hydro and Statoil (at the time, two separate companies) and French Total, all on a Gazprom shortlist, vied to acquire ownership stakes in the Shtokman field. In Norway, where the project had received considerable attention, the result was a roller coaster of rising expectations and subsequent disappointment as uncoordinated statements and accidental signals from the Russian side fuelled rumours and media speculation on the Norwegian

17 *Neftyaneye novosti Murmana*, www.murmanchanin.ru.

18 *RIA Novosti*, www.rian.ru.

19 Gazprom.

20 Andrew Kramer, "French oil giant agrees to work on Russian natural gas project," *New York Times*, 13 July 2007, www.nytimes.com.

side that a decision was imminent—or that one or both of the Norwegian companies might be awarded a significant stake, or that the game was over and no foreign companies would be included. In their endeavour to join the project, the two Norwegian companies had extensive support from the Norwegian government and diplomatic apparatus.

In July 2007 it was announced that the French oil company Total had been awarded a 25-percent stake in the joint company that is to develop the first phase of Shtokman. The Russians have not given a clear explanation of why Total was selected first. Total's proven experience in cold-climate offshore technology must have played an important role. In addition, this decision could be interpreted as a Russian attempt to further its relatively good relations with France. Germany got the Nord Stream pipeline (to be built from Russia's Vyborg across the Baltic Sea to the German port of Greifswald), whereas France's Total got a role in Shtokman.

It had long been clear that Gazprom would retain 51-percent ownership, so the final competition for the remaining 24 percent was between StatoilHydro and ConocoPhillips. To some extent this was a competition between Norwegian technology and Arctic good-neighbourly relations on the one hand, and US markets and big-power partnership on the other. Finally, on 24 October 2007, StatoilHydro was granted the final 24 percent of the field.

It is widely believed that the merger between the two erstwhile rivals Statoil and Hydro in October 2007 facilitated Norway's relative success in the Shtokman competition. Russian actors had several times noted that it was complicated to not only have to choose among Norwegian, French, and US companies, but to also have to deal with two separate but basically similar Norwegian companies. And the main reason cited for the merger was precisely the aim of strengthening the position of Norway's petroleum sector in foreign arenas, and in particular the Russian Arctic. In the case of Shtokman this seems to have succeeded.

It is important to understand the nature of the legal solution chosen for the inclusion of foreign companies in the Shtokman project. Total and StatoilHydro have not been awarded ownership of the field itself, but of parts of the company that is to develop the field. This has resulted in a discussion about whether the two companies can count Shtokman as part of their reserves. The difficulty of replacing reserves is the main driver for western companies to become involved in Russian Arctic petroleum—despite the difficulties already experienced by foreign companies in other parts of the Russian petroleum sector, such as the Sakhalin-II project in the

far east, Kovykta in Siberia, and Kharyaga in the Yamal-Nenets autonomous district. This is also why Total and Statoil have fought to get Shtokman fully recognized as part of their reserves by international financial markets and on international stock exchanges.

Another important aspect of the deals made so far is that they are more like options than ownership stakes. Since the initial deal was reached in 2007, Gazprom and the two foreign companies have been hammering out the technical and financial details of the project. There is no guarantee that Total and StatoilHydro will find the terms offered sufficiently attractive when a decision is to be made in 2011. Currently however, a different concern is the dark cloud hanging over the project. With the advent of the production of shale and other unconventional gas in the US and Canada, there are indications of an oversupply of gas in North America. This is also beginning to affect Europe, because liquid natural gas that could have gone to the US is being sent there instead. The big question now is therefore whether there will be sufficient demand for the Shtokman gas.

THE IMPORTANCE OF THE SH TOKMAN FIELD

The Shtokman field alone contains enough gas to satisfy the entire consumption of the EU for seven years.²¹ This illustrates the importance of Russia's Arctic energy projects for international energy markets. Shtokman exemplifies how Arctic energy projects can link countries within and beyond the Arctic in constructive cooperation—quite contrary to the image of a geopolitical race over energy resources driven by Russian aggression.

Shtokman has widely been seen as a driver of Russian-Norwegian cooperation and of a joint Russian-Norwegian regional industrial boom in the high north, including northern Sweden and Finland. Expectations have run particularly high in northern Norway, where hopes for a petroleum boom centred around Shtokman have injected dynamism and optimism after decades of Cold War confrontation and fisheries unemployment. One of the most optimistic visions for the development of the region includes the “Pomor zone,” a joint Norwegian-Russian industrial and economic cooperation zone straddling the border near Kirkenes.²²

Developing the Shtokman field also involves making difficult choices about the marketing and transportation solution for the gas. The three main

21 Ibid.

22 Arve Johnsen, “Barents 2020: Et virkemiddel for en framtidsrettet nordområdepolitikk,” Ministry of Foreign Affairs, Oslo, 2006, 19.

options are to build a liquefaction plant on the coast of the Kola Peninsula (most likely at the derelict fishing village of Teriberka) and export the gas by liquid natural gas tanker; to build a pipeline from Murmansk to the St Petersburg area and connect it to the Nord Stream pipeline going to Germany; or to lay a pipeline southwards through the Norwegian part of the Barents Sea and halfway down the Norwegian coast, to connect with the Norwegian pipeline network.²³ To some extent, decision-making about Shtokman is thus also decision-making about which partner Russia is going to trade and cooperate with internationally. The first option—exporting the Shtokman gas as liquid natural gas—is often thought of as synonymous with exporting it to the USA, but the liquid gas could also be shipped to Europe. One advantage of such a solution is that it would give some flexibility to the export market, although buyers would obviously need appropriate terminals for receiving the liquid natural gas. Currently such facilities are in short supply in northern Europe. So far, the preferred solution seems to be the first option, liquid natural gas, later to be combined with the second option, a pipeline connection with Nord Stream. The third option, connecting Shtokman with the Norwegian pipeline network, may be mostly wishful Norwegian thinking. It might make sense in some practical respects but is hardly a politically or economically attractive option for Russia.

CONCLUSIONS

Russia's approach to the Arctic is not dramatically different from that of other Arctic states such as Canada or Norway. Regardless of in whose favour the various existing and anticipated territorial disputes are resolved, the fact remains that most of the energy resources in the Arctic Basin are located in Russian waters. Likewise, most of Russia's hydrocarbons are located in the Arctic—on land or on the continental shelf. Thus there are few acute questions related to territory and energy resources in the Russian Arctic.

A further question is what forms of international cooperation the Russians will seek in extracting their energy resources, especially in terms of partnering with international companies. The Russians have been moving back and forth on this question. Important factors that contribute to their changing moods include the demand for natural gas within Russia and in its customer countries; the rising and subsiding tides of resource nationalism, which are influenced by the oil price; and attitudes towards

23 J. P. Barlindhaug, *Petroleumsvirksomhet i Barentshavet: Utbyggingsperspektiver og ringvirkninger* (Tromsø: Barlindhaug Inc., 2005), 14, 19, 20.

private companies, both domestic and foreign.

The current deal on the development of the Shtokman field provides a model for future cooperation. If the Shtokman field were to be cancelled, this model would be shot down. Instead, the international oil companies might have to make do with roles as suppliers and more junior partners on various projects on and off Yamal.

But there could also be other developments in the Russian petroleum sector. Stagnation, the failure of the national champions Gazprom and Rosneft to move new projects forward, and infighting among Russian decision-makers could result in the breakup of these companies. A new wave of privatization has been announced. It may be marred by cronyism and insider purchases or it may introduce a new level of private business activity in Russia. Both options are possible, and they would have different implications for the future of Russia's Arctic petroleum sector.