The Postsoviet Region

Background - Economics and Politics

Volume 1, Number 1, September 2012

The first Issue of *the Bulletin of CSAP* (Bulletin CBAP) is out!

Dear reader,

You have in your hands the first issue of the analytical bulletin published by the Center for Security Analyses and Prevention (CSAP). It is a consulting project that tries to create an international network of analysts capable of helping you in your strategic decisions in the area of politics, economics and security.

The aim of our Center is to provide highly valuable information whose accessibility is restricted, unavailable or misinterpreted. In this notion, the Bulletin of CSAP is one of the main analytical outputs of the Center for Security Analyses and Prevention, and is distributed for free with no charge or strings attached. The content is created exclusively for the CSAP and it is presented as a part of the capacities in our portfolio. This approach is new in the region of Central Europe and it is definitely not designed for only big companies or state institutions. Today, information is a strategic advantage that creates a borderline between success and failure and it should be available to everyone.

The Bulletin of CSAP provides this advantage and you can check its qualities immediately. The content can be adjusted according to your preferences, broadened in terms of a tailor-made product, and subsequently modified to the form that you prefer the most. The Center for Security Analyses and Prevention has the capacities to help you establish your business abroad or to strengthen your position in the Czech Republic (especially in the case of private companies).

Faithfully Yours,
Center for Security Analyses and Prevention

If you are interested in more detailed information about all the aspects of possible cooperation with the Center for Security Analyses and Prevention, please do not hesitate to contact us via email ***info@cbap.cz*** *or visit our website on* ***www.cbap.cz***.

Russian Eastern Oil Policy and ESPO Oil Pipeline

Author: Martin Laryš

Dynamic growth of China as an economic power raises the question about Russo-Chinese relations, and especially Russian energy policy towards China. This topic is up-to-date especially because of recent disputes about transit tariffs on the Chinese side, which appear to pay the prices decided exclusively by China itself, regardless of previously signed documents. Apparently, the main question is whether or not it is profitable for Russia to build energy cooperation with China under the current conditions?

According to the Russian Energy Strategy, approved by the government in 2009, until 2030 Russia will raise its share of eastern oil export from the contemporary 6 % to 20 – 25 % over the next 20 years. But a lot of questions about eastern oil policy haven't been answered. Russian political elites seek to strengthen Russian presence in Eastern energy markets and, at the same time, to limit its dependence on European markets (about 90 % of Russian oil export is currently going to Europe). The key project in this area is the oil pipeline Eastern Siberia – Pacific Ocean (ESPO) and developing accompanying oil fields, especially in the Irkutsk region. Exploitation of these fields is also vital because of the expected extraction decline in the Western Siberia and Volga region oil fields. Diversification of energy supplies sounds quite logical and is vital for the Energy security of every country, but are the costs for this kind of diversification acceptable for Russian Economic (and, of course, Political) Security? Russian state leadership is also interested in Chinese investment in the Far East and Eastern Siberia for the purpose of energy sector development. Russia, with its huge natural resources, and China with a dynamic economy together with growing demand for energy supplies, seem to be natural partners for energy cooperation. The building of the ESPO oil pipeline was possible mainly due to a Chinese loan-for-oil of 25 billion of dollars in exchange for guaranteed supplies of 15 million tons of oil annually over the next 20 years and also (probably) for lower oil prices.

Doubts on Profitability

Prices of Russian oil to China are estimated at about 60 dollars per barrel, which is half that of global prices. Except for that the Chinese side tries to negotiate lower transit tariffs. Thus, in the first half of last year, the Chinese side paid the price, considering it reasonable, and owed Russia tens of millions of dollars. According to some sources, "China doesn't respect legal documents and practically ignores international legislation. In addition to that, Beijing sought to lower the already very low oil prices." ESPO has an ambitious goal to supply 80 million tons of oil until 2030, but many experts oppose it as an unreal requirement. Some of them are convinced that ESPO will not be fully loaded and oil transport capacity will be moving from 50 to 80 million tons: The oil pipeline will be profitable only if it transports more than 50 million tons of oil. If not, the more profitable option is railway transport (Director of Russian Railways Vladimir Yakunin lobbied for this method of transport several years ago).

The main risk of the Chinese oil pipeline branch from Skovorodino to Daqing is the orientation to only one consumer, which has, in this case, a very strong negotiating position. Undoubtedly, it was confirmed by Chinese efforts to revise transit tariffs, considered as unprofitable to Beijing. A majority of experts believe the current transit of oil to China is unprofitable, especially for the Russian state company Transneft. To be more specific, a transit tariff is fixed to around 57 dollars per ton, but presently transit costs almost 140 dollars for the same amount of oil. From an economic point of view, transit is subsidized by the Russian state, because Transneft has to transport oil through almost the whole of Siberia from the main oil field Vancor (in Krasnoyarsk region) to ESPO, which is very expensive. According to some analysts, Transneft loses about one billion dollars annually on transport through ESPO. Other expert opinions try to confirm that the project

© 2012 CSAP

is clearly loss-making for Transneft, but for the Russian economy as a whole, it can bring profits because of the new energy infrastructure, for example the special port in Kozmino, the sole Russian port accessible for the heaviest tankers. Kozmino offers the opportunity to transport Russian oil anywhere to the world in relatively huge amounts. There are also concerns about small oil fields in Eastern Siberia and their extraction profitability. Extraction will be profitable if the prices reach at least 80-90 dollars per barrel. Overall, we can say that the ESPO project is now unprofitable and costs the state budget a huge amount of money. In this stage, the political aspects of diversification from European markets and geopolitics prevail, especially when the oil transport and extraction are unprofitable. On the other hand, the rentability of oil diversification in the future is not excluded, if the oil prices are high and energy infrastructure in the entire region is fully developed. Currently, there are a lot of undeveloped oil fields, which expect extraction to start no earlier than 2016.

Is there enough Oil for China?

Many experts are worried that in Eastern Siberia there is not enough oil to fill the ESPO and say that if there is a decline in the extraction of traditional oil fields and a new market is opened, it means nothing less than abandoning the old markets and their substitution for the new ones, which are far from being as profitable as the old markets. According to them, Russia should absolutely export oil to China, but in other, more advantageous, conditions. Exploitation of Eastern Siberian oil fields are now in their first stages and the level of their extraction last year was only several million tons, quite a little for ESPO, with a maximum future capacity of 80 million tons. Notwithstanding the high potential of natural resources in Eastern Siberia, they are almost untouched because of geographic isolation and a harsh climate. Weak infrastructure in this region complicates transport of both necessary equipment and production export. Various optimist prognoses show that Eastern Siberian oil fields can produce approximately 45 million tons until 2020, but new taxation on these oil fields can slow down their exploitation. Current taxation system makes these oil fields unprofitable. The National Energy Security Fund proclaims that the Russian eastern energy strategy concentrates on the doubtful presumption of steady oil exploration growth, which should secure preservation of European markets and "conquest" of the new Eastern ones. Extraction in Eastern Siberia proceeds very slowly and therefore, the whole system of Energy Eastern policy focuses on transferring oil from Western Siberia (Vancor oil field) to China. The economic sense of these steps is also not very clear.

Russian Eastern Strategy as a whole is based on the rational presumption that the sooner Russian energy supplies will be delivered to Chinese market and strengthen its position, the more money and political potential Russia can earn from these exports. However, from point of view of many experts, this policy should be realized under better conditions, in order to be more advantageous for Moscow.

The analysis is also available in the Czech language.

Nanotechnology in the Russian Federation

Author: Martin Laryš

In 2007, the Russian state leadership published a decree about the development of nanotechnology in Russia. For the purpose of nanotechnology development, the state company Rosnano was founded, with former vice prime-minister and initiator of economic reforms in the 90's Anatoliy Chubais at its head. Rosnano company was not formed with the objective to commercialize nanotechnology products or to financially support nanotechnology research, but its main function is financial support for facilities producing nanotechnology products (Rosnano can have only a 49 % share in all nanotechnology projects it supports, never a

© 2012 CSAP

majority one) in the territory of the Russian Federation.

To put it in different words, Rosnano concentrates on building nanotechnology infrastructure on the project basis and budgets higher than 10 million USD (including already built facilities). However, only a few facilities with nanotechnology specialization have been built – their main problem is demand, because Russian industry is not interested in this sector (maybe with the exception of mobile phones and IT). More than 100 projects have been approved (around 5 % of all proposals) until now. Also, nanotechnology is not a real priority of the Russian government, to which Rosnano took the stand, "We'll give you money, do with it what you want."

Before everything else, Russia needs modernization, and only after that needs innovation (the majority of Russian factories and plants are in desperate conditions – obsolete technologies, equipment and non-inventive personnel). In Russia, the word "innovation" is already compromised due to empty promises of the Russian power elites. Only a few government officials are really interested in innovations (the priority is export of oil and natural gas – the main source of income for the Russian budget). Rosnano company receive generous state assistance, but allegedly nobody in the company knows what to do with these financial resources. That's why the efficiency of the company is respectively low. Besides, the company is going through personal changes and cuts, where whole departments are being dissolved.

Foreign and/or international companies interested in commercialization of nanotechnology products in Russia have to concentrate on joining its activities to "business platforms" on a B2B principle, gathering Russian nanotechnology experts, research laboratories and especially businessmen, who intend to invest into this sector or buy production. The other option is joining the Association of Innovative Clusters, however their business activity is not very intensive. Basically, a few contracts were signed with the help of this association.

In Russia there are not many research laboratories dealing with nanotechnology – the most known are the Faculty of Nanotechnology, Biotechnology, Information and Cognitive Technologies MFTI (since 2006) and the Physical-Technical Institute IrGTU (since March 2007). Information support is provided by the National Electronic and Information Consortium (NEIKON) and also by the Russian Nanotechnologies journal (Rossiyskie nanotekhnologii), website nanometer.ru works since 2007.

Lastly, between 2010-2012 the amount of investments to research centers declined by almost half (from 5,8 bln. rubles to 2,9 bln. rubles annually).

The analysis is also available in the Czech language.

Dopady ruského státního rozpočtu na vývoj ruské ekonomiky

Autor: Karel Svoboda

Když v září 2011 odstoupil respektovaný Alexej Kudrin z pozice ministra financí, pro velkou část pozorovatelů to představovalo signál změny v ruské fiskální politice. Kudrin se ani nijak netajil tím, že není schopen spolupracovat s tehdejším prezidentem a současným premiérem Medvěděvem. Hlavním kamenem sporu mezi oběma nebylo nic menšího než otázka výdajů ze státního rozpočtu, a to hlavně v sociální oblasti. Podle bývalého ministra financí narostly do takové míry, že již začaly být hrozbou i pro samotný rozpočet, a to hlavně v mandatorní oblasti. Jak se zdá, ani jeho nástupce Siluanov nesdílí nadšení ze zvýšeného utrácení. Debaty o parametrickém nastavení rozpočtu se projevily hlavně nyní, kdy se projednává rozpočet na roky 2013-2015.

© 2012 CSAP

Situace se nicméně nezdá nijak alarmující. Rusko za prvních sedm měsíců roku 2012 vykázalo přebytek rozpočtu ve výši 0,9 procenta HDP. Relativně vysoké ceny ropy také umožňují plnění Státního rezervního fondu a Fondu národního bohatství, které dohromady dosahují zhruba 22 procent hrubého domácího produktu. I kdyby tedy nastala situace z let 2009 a 2010, kdy Rusko zaznamenalo deficit státního rozpočtu ve výši 5,9 procenta HDP, respektive 4,1 procenta HDP, bude mít dostatek prostředků k jeho pokrytí.

Pro Rusko nejsou vyhlídky jen růžové. Důvodem je totiž fakt, že cena ropy v posledních měsících zaznamenává spíše sestup. Z ropy, spolu s dalšími komoditami, pochází přibližně jedna třetina hrubého domácího produktu, daná skupina má nezanedbatelný podíl i na vývozu. Podle korigovaného rozpočtu z května 2012 měl proficit rozpočtu dosáhnout 0,1 % hrubého domácího produktu. Takový odhad byl ovšem založen na předpokladu, že průměrná cena ropy typu Urals na světových trzích bude kolem 115 dolarů za barel. Takový předpoklad se ovšem nenaplnil a ropa dnes dosahuje ceny jen zhruba kolem 102 dolarů. I proto předpokládají ruští odborníci, že se rozpočet znovu přehoupne do deficitu. Na příští roky se nicméně bude rozpočet tvořit podle nového pravidla, kdy cena bude vycházet z průměrné ceny za několik posledních let. Tím by se mělo docílit přeci jen omezení výdajů, na druhou stranu ale případný pokles cen může působit problémy.

Poptávka po zemním plynu v Evropě v současné době stagnuje a vývoj v oblasti dluhové krize nevěstí nic dobrého pro obnovení jejího růstu. Evropské trhy jsou stále ještě přezásobené plynem a spíše než možnosti zvyšovat dodávky se společnosti zabývají tím, jak dodávky omezit. Gazprom se tak musí ohlížet i na jiné vývozní trhy, ovšem zde je jeho pozice ještě nejistější. V Číně, která byla dlouhou dobu považována za možnost, jak diverzifikovat portfolio odběratelů, naráží ruský vývozce na neochotu přistoupit na světové ceny. Z hlediska čínské ekonomiky, která stále stojí hlavně na černém uhlí, není dohoda s Gazpromem prioritou. Navíc, proti Gazpromu stojí další možní vývozci, ať již Austrálie nebo blízkovýchodní státy. Ropa je v tomto ohledu sice přeci jen vůči krizi více imunní, ale nelze mluvit o nějakém výrazném rozdílu.

V tomto kontextu začínají dostihovat prezidenta Putina jeho předvolební sliby, kterých rozhodně nebylo málo. Podle některých odhadů (Fitch) by jejich splnění stálo naprosto gigantických 161 miliard dolarů. Jedním z takových slibů bylo například vyrovnání platů akademických pracovníků na úroveň dvojnásobku průměrné mzdy platné v regionu, a to do roku 2017. Takového výsledku bude pravděpodobně nemožné dosáhnout již jen proto, že plánované výdaje na zdravotnictví a školství mají klesat. Jejich dofinancování má být následně zajištěno z jiných zdrojů, například z místních rozpočtů.

Vzhledem k tomu, že již nyní je deficit v oblasti sociálních výdajů ve výši 135 miliard rublů a 89 miliard dosahuje nedostatek prostředků pro krytí deficitu na penzijním účtu, je politika ruské vlády zaměřena na redukci těchto výdajů. Zde ovšem dochází ke sporu mezi ministerstvem pro hospodářský rozvoj a obchod, které má na starosti především hospodářský růst a ministerstvem financí s jeho primární starostí o fiskální vývoj a inflaci. MERTu, byť neoficiálně prostřednictvím náměstka ministra, se hlavně nelíbí omezení v sociální sféře.

Zcela proti omezením v sociální sféře jde posílení vojenského rozpočtu. Ministerstvo obrany by tak mělo dostávat zhruba pět až šest procent hrubého domácího produktu. Takový podíl překračuje většinu světových zemí. V případě USA dosahuje podíl výdajů na obranu k HDP zhruba 4,7 procenta. Rusko také uvažuje o návratu svých základen do Vietnamu nebo na Kubu, tedy do oblastí, ze kterých právě Putin na začátku svého prvního volebního období odešel pro vysoké náklady, které nic nepřinášely. Je zřejmé, že pokud se plán uskuteční, dojde ke zvýšeným nákladům na zahraniční vojenskou přítomnost.

V kontrastu s navyšováním vojenského rozpočtu jsou zprávy o snižování prostředků

© 2012 CSAP

na ruskou obdobu amerického Silicon Valley, tedy Skolkovo. To mělo být hlavním centrem inovací, přičemž se plánovalo, že přitáhne špičkové vědce a odborníky z celého světa a konečně Rusko zbaví již tradiční závislosti na cenách ropy. Podobně došlo i k omezení financování tolik palčivého problému, jaký představuje dopravní infrastruktura. I zde se jedná o prostředek, jak dosáhnout alespoň částečného vytvoření podmínek pro jinou ekonomiku, než jen tu založenou na příjmech z prodeje surovin.

Při sestavování rozpočtu mělo ministerstvo financí, respektive ruská vláda, na výběr ze tří oblastí, které bude financovat v plném rozsahu, tedy obrany, penzijní reformy nebo platů zdravotníků, učitelů atd. Logika zněla tak, že peníze jsou na plné financování pouze dvou z nich. Zdá se tedy, že rozhodnutí padlo na posílení obrany a pokrytí deficitu penzijního fondu. Naproti tomu přijdou zkrátka učitelé, zdravotníci a jiní. Takový vývoj lze jen těžko považovat za pozitivní, jelikož nijak nepřispívá k nesurovinovému růstu. Rusko samozřejmě nezkrachuje, naopak, může takto fungovat i po dlouhou dobu, nicméně jeho závislost na cenách ropy se nesníží.

If you are interested in our analyses of the Czech political and economic environment, don't hesitate to contact us via *info@cbap.cz.*

© 2012 CSAP

About Us

- **CSAP / CBAP** (Center for Security Analyses and Prevention / Centrum pro bezpečnostní analýzy a prevenci) is a group of Czech and foreign professionals from the state sector, security services, management, consulting, law companies, advisors and academics who form a unique team capable of responding to any task and providing any advisory service related to political and economic consulting in the field of risk-management and security issues.
- Our main goal is the effective functioning of an expert team on a voluntary basis, with focus on the analyses of political, economic and security situations. With other, no less important assistance and intermediary capabilities both in Czech Republic and abroad, this creates a whole new portfolio of analytical tools in the region of Central Europe. We intend to unite individual analysts and advisors who do not dispose of functional instruments for complex approaches to effective problem solutions, which are limited by the boundaries of individuality of the particular expert and their ability to elaborate social complexity. Only a team of political, security and economic experts can provide a complex analysis with relevance for the everyday life.

What we do

- Analyses and prognoses of political situations, the analyses of market development, SWOT analyses and the creation of special analytical products (mainly the political situation monitoring).
- Interdisciplinary analyses of international threats and opportunities. We provide analyses of political and security trends and present a full range of insight into the goals of government politics, electoral prognoses and perspectives of power changes.
- Important decision-making processes of governments and large companies demonstrate the need for detailed knowledge of particular regions or countries of interest. Therefore, the detailed studies and monitoring services, which perfectly answer particular needs and interests of various actors, provide necessary information for the specific action.
- We offer comparative analyses of individual countries. The analyses take into account the perspectives of political, economic and social stability on both a domestic and regional level, political crises, level of investment climate (including corruption etc.) and state regulations.
- We regularly examine economic and financial policy of individual countries. Our publications provide both the analysis of macroeconomic variables (economic growth, unemployment, inflation, public finances, balance of payments) and the general economic view of individual countries or regions to the clients (including specific economic spheres).
- We are capable to provide assistance, advisory and intermediary services.

Follow us:

© 2012 CSAP