

The institutional sources of Russia's influence on international oil and gas markets. Change and continuity after the war in Ukraine

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Overview

The war in Ukraine is a major turning point in Russia's integration into the hydrocarbon markets. Beyond the large-scale reconfiguration of trade flows observed over the last three years, an important political economy issue to consider is the ability of Russian actors - the state and state-owned companies, Rosneft for oil and Gazprom for gas - to continue to participate in international markets in such a way as to influence the reference price of hydrocarbons. The rationality and the capacity of the Russian actors have been differentiated in the oil and gas sector. In the case of oil, this took the form of joining the OPEC+ deal at the initiative of the federal government. The state's preference to position Russia as a credible actor in regulating oil price is an important development of the last decade. In the case of natural gas, the process of integrating the various regional markets was under way, but had not been completed before the outbreak of the war. Nevertheless, there is no doubt that the strategies of the Russian players - first and foremost Gazprom - were crucial in giving credibility to the integration of the markets and, as a result, to the emergence of an international price reference. After the war in Ukraine, the reconfiguration of international interdependencies is redefining the strategic framework for Russian industry players. For the time being, this has different implications for oil and gas. The decoupling from Europe has led to a major reorientation of international oil flows, but has not undermined Russia's leverage. On the other hand, Russia's ability to influence the definition of a global reference price for gas is largely questioned.

Method

We take the internal dynamics of hydrocarbon governance as our starting point for analysis. In other words, we are primarily interested in the domestic and institutional sources of influence of Russian actors in international markets. This focus on domestic institutional and organisational dynamics has a twofold justification. First, it is a useful complement to the more structural analyses that have been developed since the outbreak of the war to understand the new energy interdependencies that are emerging and the risks of 'weaponisation' by the various actors involved. These analyses remain largely state-centered, which is not entirely appropriate for analysing the Russian model of international integration. Indeed, this model is underpinned by the emergence of truly international hydrocarbon companies which, despite their public shareholding, have been able to adopt and internalize liberal norms and rules of international competition. Secondly, in line with the work of historical institutionalism, the analysis of the existing institutional framework is the appropriate starting point for understanding the changes and continuities observed after the 2022 shock.

In order to characterise the 'Russian model' of international integration, the article draws on the comparative institutional economics literature on hydrocarbon governance. In particular, it is based on a review of the literature on the dynamic relationships that exist between States - the owners of the resources - and national oil companies, to which exploration and production activities are delegated. Indeed, our hypothesis is that the 'Russian model' of international integration in hydrocarbon markets reveals the high degree of robustness of the domestic institutional framework. Russia's participation in OPEC+ and Gazprom's increasingly complex strategies on the European market demonstrate the robustness of the institutions governing the relationship between the state and state-owned companies. Indeed, the coordinating institutions have made it possible to respond to the need, on the one hand, to define a control and incentive framework that has allowed the companies to be efficient and, on the other hand, to ensure that the government can use them as a leverage to regulate and intervene in the markets.

Results

Three results are highlighted in the course of the analysis.

1. The current 'Russian oil model' can be described as a hybridisation of the 'Norwegian model'. Since the mid-2000s, the federal authorities have used the Norwegian experience as a benchmark. However, the Norwegian model has been adapted to the Russian institutional context and to allow the state to intervene strategically in the market. This process of hybridisation has resulted in an original configuration for the organisation of upstream oil activities. Its robustness is based on two components: flexible taxation and a diversity of coordination arrangements between the state and the oil companies, especially Rosneft.
2. During the 2000s, the strategies of the main Russian gas players – including Gazprom - underwent significant changes which could have been important in the definition of a benchmarking price for gas. Russia was in a position to foster significant gas competition which would give credibility to the logic of the spot markets, to gradually arbitrate between regional markets and therefore to have an impact on the emergence of an international benchmarking price.
3. International energy relations that have emerged from the war in Ukraine are changing Russia's influence in hydrocarbon markets. The “Russian oil model” is proving resilient enough to allow Russia to continue participating in OPEC+. Nevertheless, given the structural characteristics of the gas market and a globalisation process that was still incomplete at the time of the war in Ukraine, Russia's ability to influence the definition of a global reference price for gas is undermined.

Conclusion

The goal of this article was to understand the changes in the organisational model of the hydrocarbon industry in Russia that have enabled it to influence international prices. The aim was to understand whether post-war structural changes could call into question Russia's ability to maintain a certain influence in this area. For now, the implications for oil and gas are different. While the domestic model is proving resilient enough to allow Russia to continue participating in OPEC+, Russia's ability to shape the emergence of an international price in the gas market is largely questioned.