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Fragmented Cooperation:

The Role of State-Owned and Private Companies in Sino-Russian Energy Collaboration

Abstract

Observers tend to interpret the contemporary Sino-Russian relationship in terms of strategic, purposeful cooperation, driven by national interests and power-political considerations. The search for power and security as well as balancing against the US have increasingly been pushing China and Russia closer together. The energy realm offers a distinct picture of the Sino-Russian relationship. The pace of cooperation has varied and depended on key domestic players in particular sectors. As a consequence, success stories have been accompanied by major setbacks. Energy cooperation encompasses both a meteoric rise of oil cooperation and the muddling through of gas cooperation. The foundations for close ties in the energy realm were laid well before the post-Crimean acceleration of Sino-Russian cooperation. More often than not, however, parochial interests of dominant state-owned and private enterprises rather than strategic considerations have driven this cooperation. Looking through the prism of energy cooperation, I emphasize the complexity of Russia and China as actors in international politics instead of approaching them as rational and unitary players.

Key words: Russia, China, Russia-China relations, energy, Rosneft, Novatek, Gazprom, oil, gas

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Introduction

Observers tend to interpret the contemporary Sino-Russian relationship in terms of strategic, purposeful cooperation, driven by national interests and power-political considerations (Korolev, 2022). In the International Relations theory parlance, Beijing's relationship with Moscow appears to be a paragon of the realist paradigm (Korolev, 2016). The search for power and security as well as balancing against the US have increasingly been pushing China and Russia closer together (Kirchberger, Sinjen, and Wörmer, 2022). The 'bromance' between Xi Jinping and Vladimir Putin – who held almost 40 meetings over the last decade – has only reinforced this perception.

The energy realm offers a distinct picture of the Sino-Russian relationship. Energy is among the most relevant and most developed areas of Sino-Russian cooperation, encompassing almost every aspect of contemporary energy production and trade: crude oil, natural and liquefied natural gas, nuclear energy, electricity and coal. Collaboration in the energy sector can be traced back to the early 1990s, although at that time cooperation in key sectors of oil, gas and LNG was almost non-existent.

In the mid-2000s, Bobo Lo described Sino-Russian energy cooperation as 'imperfect complementarity', with Beijing interested in Russian oil and Moscow determined to sell natural gas (Lo, 2008, 133-134). The development of collaboration has turned out to follow this prescient comment, reflecting China's priorities rather than those of Russia. In the mid-2010s, Russia has emerged as number one supplier of oil to energy-hungry Chinese customers, vying with Saudi Arabia.

Pipeline gas export has remained insignificant, even if the full capacity of the Power of Siberia will make Gazprom a provider comparable to Central Asian states. Liquefied natural gas (LNG) has turned out to be a black swan, with the key Russian producer, Novatek, tightening cooperation with China. Over the decade and a half after the 2008-2009 global economic crisis, Sino-Russian energy cooperation has reached new heights.

The relevance of energy cooperation notwithstanding, it is most often misunderstood and misrepresented by the media and the expert community. It tends to be dismissed and/or subsumed under great-power politics. The picture of Sino-Russian energy collaboration tends to be painted on the basis of the 2014 Gazprom's deal, which was an exception rather than a rule. Two most persistent myths include the belief that natural gas export is the most important component of cooperation and that Russian-Western tensions after 2014 were the key driver of cooperation. In reality, natural piped gas component is dwarfed by oil and LNG, while cooperation in most energy-related areas took off before 2014. Russian oil and LNG export to China represent a success story, but it is hype surrounding Gazprom-led pipeline gas export that dominates the debate. Russian representatives reinforce those misguided narratives by threatening that Russia may turn away from Europe for the sake of the Chinese gas market (TASS, 2022).

While energy cooperation can be considered among the most relevant pillars of Sino-Russian relationship, it offers a complex picture. The pace of cooperation has varied and depended on the interests of main players in particular sectors, including domestic competition between them. As a consequence, success stories have been accompanied by major setbacks. Energy cooperation encompasses both a meteoric rise of oil cooperation (including long-term contracts, new pipelines and multi-billion dollar prepayments) and muddling through of gas cooperation (futile negotiations for over a decade). The foundations for close ties in the energy realm were laid well before the post-Crimean acceleration of Sino-Russian cooperation. More often than not, however, parochial interests of dominant state-owned and private enterprises rather than strategic considerations have driven this

cooperation. Looking through the prism of energy cooperation, we are forced to recognize the complexity of Russia and China instead of approaching them as rational and unitary actors.

In order to account for this complexity, the article introduces the concept of *fragmented cooperation*, one in which political leaderships and domestic actors contribute to the final shape of a bilateral relationship. Explaining the dynamics of energy cooperation, I pay particular attention to the interplay between strategic considerations of Moscow and Beijing on the one hand, and the role of state-owned and private energy companies pursuing their parochial interests on the other. The article argues that in each major field of Sino-Russian energy cooperation – oil, liquefied natural gas, pipeline gas, and nuclear energy – an idiosyncratic set of factors, rather than strategic considerations, has dictated the pace and depth of bilateral cooperation.

In the oil sector, parochial interests of a dominant player – Rosneft, led by Igor Sechin – played the key role in the final shape of cooperation. In the LNG sector, China capitalized on domestic competition in Russia over the shape of gas export monopoly, with Gazprom being outmaneuvered by Novatek. Finally, in the natural pipeline gas sector, the breakthrough was possible because of the Kremlin's tightening room for maneuver and readiness to acquiesce to Chinese conditions. Against this backdrop, the sector of civilian nuclear energy represents the most consistent pattern, with Russia's Rosatom diminishing – though still relevant – role in the Chinese market. In the concluding section, the article explores the relevance of fragmented cooperation in the energy sector for the Sino-Russian relationship in general.

Fragmented cooperation: beyond the strategic versus pragmatic/opportunistic cooperation

The majority of assessments of Sino-Russian relations in academic and policymaking circles tend to oscillate between *strategic* and *pragmatic/opportunistic* cooperation. The former approach emphasizes a long-term broadening of collaboration. It is driven either by power-political reasons, according to realist and statecraft thinking (Korolev, 2019; Korolev and Portyakov, 2018) or

normative convergence, according to constructivist scholarship (Rozman, 2014; Wilson, 2019; Wishnick, 2017). At the opposing end of the spectrum is an approach that underlines the non-strategic nature of collaboration – short-term and driven mostly by anti-Americanism, termed either pragmatic (by mild critics and sympathizers) or opportunistic (by harsh critics). This article introduces the concept of *fragmented cooperation* that allows to go beyond the above presented binary.

Both strategic and pragmatic/opportunistic cooperation recognize Russia and China as unitary actors, with respective political leaderships having the ultimate say over the course of the relationship and the capacity to rein in domestic actors. Particular authors differ on a relative importance of individual leaders, Vladimir Putin and Xi Jinping, vis-à-vis broader ruling elites and their consensus on further development of the relationship. Nonetheless, the underlying assumption asserts that Russia and China steer their relationship as unitary actors. Its most recent iteration is the scholarship on geoeconomic statecraft, embedded in but distinct from the realist theoretical tradition of IR (Scholvin and Wigell, 2018, 81).

Such an assumption has been increasingly challenged with regard to non-Western great powers in general (Hameiri, Jones, and Heathershaw, 2019), and China in particular (Jones and Hameiri, 2021; Reilly, 2021; Ye, 2020). The theory of state transformation and state fragmentation asserts that domestic actors have the capacity to bargain with the state and that the outcome of this interaction for foreign policy remains uncertain. While the state and domestic actors can help each other to achieve their goals, it is by no means a unidirectional relationship. Domestic players can lead, rather than follow, the state's action, mobilize the state to protect their own parochial interests, and complicate the implementation of political leadership's grand strategic designs.

The key starting point for the state transformation paradigm are the processes of 'fragmentation, decentralisation and internationalisation of state apparatuses' (Jones and Hameiri, 2021, 12, 26-36). *Fragmentation* is defined as 'the horizontal dispersal of power and authority across multiple agencies at a given governance scale' (Jones and Hameiri, 2021, 27), *decentralisation* as devolving power and resources to subnational agencies (Jones and Hameiri, 2021, 29), *internationalisation* as 'domestic

agencies acquiring an international presence or function, thereby increasing the number of actors involved in a country's international relations' (Jones and Hameiri, 2021, 34). These processes have forced the leadership to resort to a number of tactics to align the goals of selected domestic actors with their own political goals, such as orchestration or mobilization. The core assumption shared by this literature emphasizes the uncertainty of outcomes of a political action, given potential leeway for domestic players and their scope for employing the state for their own purposes.

Following the insights from the literature on state transformation and fragmentation, *fragmented cooperation* is defined as bilateral cooperation driven not exclusively by both states' leaderships or ruling elites but forged in the process of bargaining between those leaderships and domestic actors and/or by actions of domestic actors, retrospectively accepted by the leadership. Unlike the concepts of strategic and pragmatic/opportunistic cooperation, fragmented cooperation emphasizes the necessity to explore the inner workings of participating states, in particular the relationship between political leadership and domestic actors as well as competition among the latter. This concept also underlines uncertainty of outcomes of planned cooperation and the fact that these outcomes can be distant from initial expectations of political leaderships.

How is the strategic-versus-pragmatic/opportunistic-cooperation debate reflected in the energy realm? In the 2000s, the failures of Russia and China to move forward with major energy projects – despite repeated commitments and numerous documents signed with pomp at bilateral summits – pushed observers to see this relationship in terms of opportunistic cooperation. The tone of assessments changed throughout the 2010s, with energy cooperation identified as an expression of a strategic level of the Sino-Russian relationship (Korolev, 2022; Røseth, 2017; Skalamera, 2019). While Lo (2017) continued to see energy cooperation as driven by hard bargaining and opportunism, the majority of observers recognized the emergence of a strategic energy partnership. Lo remained skeptical as to the prospects of the *Power of Siberia* gas pipeline and argued that 'the two sides find themselves in a holding pattern' (Lo, 2017, 33). Røseth, on the contrary, asserted that the Russian side moved from a pragmatic to strategic partnership (Røseth, 2017, 23). Korolev (2022) sees 'an

increasing number and share of energy projects and related investments that commit both sides to creating and using immovable elements of costly infrastructure, which requires fulfilling a range of mutual obligations’ as a confirmation of the strategic dimension of the partnership, pointing to vulnerabilities and shared risks between the parties.

Observers differ both in locating the breakthrough points and in explanations of those breakthroughs. Roseth emphasizes the period of 2008-16 as the shift in the nature of energy collaboration, pointing to ‘political will and economic necessity’ (Røseth, 2017, 24) as key drivers of this shift. Skalamera (Skalamera, 2018a, 2018b, 2019) focuses on two ‘mega-deals’ in oil and gas, concluded in 2013 and 2014 respectively. Korolev (2022) fuses oil and gas projects, tracing them back to the late-2000s and the end of Putin’s second presidential term. What stands out in those voices is merging oil cooperation – that has delivered tangible results – with still prospective cooperation in the pipeline gas sector. The contract on gas deliveries worth US\$400 billion, signed in 2014, seems to have captured the imagination of observers. They also recognize that Russia – in spite of all of its resources – remains a weaker side in the energy relationship. Whereas China has constructed a diversified portfolio of importers, Russia’s efforts to diversify its energy exports in the Asian market remained futile, leaving Moscow with growing reliance on China as the main market.

Several approaches can be identified as to the place of energy cooperation against the backdrop of the overall Sino-Russian relationship and factors that have been driving it. Røseth (2017) and Korolev (2022) consider the progress in energy cooperation to constitute a proof of the strategic value of the relationship; implicitly, they indicate that these were strategic moves by both states to arrive at such close cooperation. They both point to Russia’s acceptance of vulnerability vis-à-vis China as testifying to the strategic nature of energy cooperation (Røseth, 2017, 45-46). Locatelli and colleagues (Locatelli, Abbas, and Rossiaud, 2017) explore the energy interdependence between Russian and China, which they see as strategic and based on complementarity between two actors’ needs.

Skalamera (Skalamera, 2019), in turn, explains the energy relationship joining discursive and domestic political factors. She links ‘megadeals’ in oil (2013) and gas (2014), arguing that it was the combination of external shocks and internal developments that pushed Russia to turn to China, especially regarding gas export. She interprets Russia’s move in terms of the assessment of Asia in general and China in particular as primary sources of ‘Russia’s future growth’ (Skalamera, 2019, 70). Exploring the domestic context, Skalamera inquiries into the role of dominant discourses. Explaining Gazprom’s turn to China, she puts this decision in a broader context of a discursive shift towards Asia – and away from Europe – in Russian politics of the early-2010s (Skalamera, 2018b). However, the pipeline politics that ensued in the second half of the 2010s, in particular the construction of the Nord Stream 2, points to the limitations of Russia’s turn away from the West. Xu and Reisinger (2019) offer an explanation to a certain degree rooted in a similar domestic political dynamics. They assert that Russia’s decision-making process vis-à-vis China has been driven by personalist elements, including Putin’s personal relationship with Xi Jinping. This personalist aspect remains in tension with institutional aspects, both at the domestic level in Russia and between the two states. They point to the role of key figures such as Igor Sechin or, to a lesser extent, Arkady Dvorkovich (Xu and Reisinger, 2019, 7) or state-owned corporations, whose boards are inhabited by Putin’s allies and loyalists (Xu and Reisinger, 2019, 8-9).

Those focused on the strategic dimension of the Sino-Russian relationship tend to approach the energy sector either as a footnote to the overall cooperation, or as a done deal, in each case subordinated to the general direction in which the relationship moves. Those inquiring about domestic politics leave more room for particular domestic actors’ agency but do not offer a comprehensive framework that would account for particular features of Sino-Russian energy ties. The proposed *fragmented cooperation* framework allows for: (i) accounting for different pace of cooperation in particular energy sectors, including the identification of key ‘breakthroughs’; (ii) identifying the role of corporate actors, state-owned and private enterprises as well their leaders; (iii) explaining the sources of failures in Sino-Russian energy cooperation.

Cooperation in the oil sector: parochial interests of Rosneft

Sino-Russian cooperation in the oil sector represents the most advanced and successful segment of their bilateral energy collaboration. Major milestones were achieved well before the post-2014 acceleration of Moscow-Beijing ties. China facilitated the very process of building a patron-client network in Russia of the early-2000s. In 2004, a loan provided by a Chinese state-owned bank enabled the Russian state-owned enterprise, Rosneft, to take over Yukos, a major private oil company owned by Mikhail Khodorkovsky, an oligarch whom Vladimir Putin imprisoned for more than a decade. Rosneft broadened its ties with China by accepting further loans, entering into long-term contracts and using multi-billion dollar prepayments to expand on the Russian market at the cost of independent oil producers. Following the global economic crisis of 2008-2009, both sides constructed an oil pipeline to China, underpinned by loans from China and a long-term contract for oil delivery. In 2013, another multi-annual contract followed, this time sweetened by Chinese pre-payments. Russia's Rosneft and its leader, Igor Sechin, found themselves among the earliest pro-China supporters within the Russian elite, not discouraged from broadening cooperation even after being forced to accept the renegotiation of their first major deal shortly after it had been concluded. After almost two decades of successful cooperation, Russia emerged as China's major oil supplier on par with Saudi Arabia. In 2021, China imported 79 million tons from Russia, which means that Russia provided around 16% of Chinese total oil import.

These successes do not mean that there were no setbacks. Rosneft has never managed to enter China's downstream market as promised – the refinery in Tianjin, initially announced in 2006, remains on paper. China has not received access to large oil fields in Russia, as demonstrated by the Vankor field promised to the Chinese side personally by Vladimir Putin. The deal that would allow a Chinese company, CEFC, to take over shares in Rosneft fell apart due to the intricacies of Chinese domestic politics.

The breakthroughs: the pipeline and the contracts

The idea to build a pipeline linking Russian oil resources with the Chinese market entered the scene of Russian politics in the mid-1990s. In 2000, Yukos proposed to replace rail transport with a pipeline. In 2002, the plans became more concrete, with Mikhail Khodorkovsky proposing to build a pipeline from Angarsk to Daqing (Sakwa, 2009, 135). On the one hand, the idea in general was supported by the Kremlin as an MoU was signed by Putin and Jiang Zemin in 2002 (Sakwa, 2009, 135). On the other hand, Khodorkovsky aspired to undermine Transneft monopoly and build a private pipeline. In late 2002, Putin seemed to prefer an oil pipeline to the Pacific coast (Nakhodka), where it would supply a number of customers (Sakwa, 2009, 136). In addition, in the same year, China's CNPC was refused the acquisition of Slavneft by the Russian parliament, which was in itself a rare example of the Duma intervening openly in foreign policy. Despite these shifts away from China, in May 2003 Putin and Hu Jintao gave a go-ahead to the pipeline to China, while Yukos signed an agreement on a pipeline and a twenty-year contract (Sakwa, 2009, 137). Russia's 2003 Energy Strategy identified China, Korea, Japan and India as major prospective customers and envisioned the pipeline to Nakhodka with a branch to China.

China's role in the takeover of Yukos by Rosneft, orchestrated by Igor Sechin, marks the first major non-strategic element of Sino-Russian oil cooperation. As demonstrated by the above twists and turns, Moscow was unwilling to commit to a single partner in the endeavor of directing oil to the Asian markets. Thus, Yukos takeover reflects less of a strategic choice of a partner, and more the need to secure cash and legitimacy. In 2004, China provided a loan to Vneshekonombank that enabled Rosneft to buy Yukanskneftegaz. In return, Rosneft agreed to provide 48 million tons by 2010 (Sakwa, 2009, 137). While still delivered via rail, it was a milestone in energy cooperation, linking Rosneft and China. However, China's quest to secure stakes in Russian oil fields continued without major breakthroughs. In the mid-2000s, CNPC gained shares in a relatively small energy company, Vostok Energy, which is exploring Verkhneicherskoye and Zapadno-Chonskoye fields. Sinopec acquired 49% of shares in the Udmurtneft company.

While the idea to construct an oil pipeline to China by all means reflected the vision of a strategic partnership between two Eurasian giants, a major producer and a major consumer, it was partly contradicting another vision underpinning Russia's energy policy – one of gradually shifting oil exports to Asia. First marked in the 2003 Energy Strategy, the aim was reiterated towards the end of the decade. The Energy Strategy by 2020, revised in 2009, continued to emphasize the need to diversify export in the Asian markets, enumerating China, Japan, Republic of Korea and other countries of the Asia-Pacific region. The aims included the increase of the oil export from 6% to 22-25% (Ministry of Energy of the Russian Federation, 2010, 23). In other words, China was supposed to be one of several customers rather than a privileged and almost exclusive *strategic partner*.

This long-term aim envisioned by the Energy Strategy was undermined by the convulsion of three policy choices of the Russian leadership in the wake of the 2008-2009 global economic crisis: the ultimate decision to build an ESPO branch to China; securing a 20-year long contract signed by Rosneft and Transneft for the delivery of oil to China; and securing the loans in Chinese banks for those two companies. The Russian leadership turned out to be unable to play a long game of putting China and Japan against each other in the competition for Russian resources. The lack of financial fluidity, i.e. corporate debt, and the terms offered by Chinese counterparts turned out to be sufficient incentives for Rosneft and Igor Sechin to conclude long-term agreements with the Chinese side. Whereas the effect could have been a closer cooperation, the outcome was less related with the drivers, which were parochial and narrow rather than strategic.

The acceleration of cooperation quickly demonstrated China's rising upper hand. In 2011, Rosneft was forced to accept Chinese request for discount and renegotiate the original contract. Even worse, the project of a refinery in Tianjin – which would open a lucrative downstream Chinese market for the Russian company – never went beyond a planning issue. The representatives of both sides laid a foundation stone as early as 2010.

The setbacks that Rosneft experienced in the aftermath of its first long-term contract with CNPC did not discourage its leadership from seeking a closer cooperation. In 2013, Rosneft entered into an even

more substantial contract with CNPC, agreeing to provide its partner with additional 15 million tons annually over the period of 25 years. The value of the contract was estimated at US\$ 270 billion, with CNPC agreeing to pay US\$ 40 billions of prepayment. At that time, Rosneft needed an additional cash inflow as it was taking over the TNK-BP in a landmark US\$ 55 billions deal. This move was to strengthen Rosneft position as a major player in the Russian oil sector, remove Russian owners of TNK (not fully controlled by the Kremlin) and to tie BP to Rosneft (as part of a deal, BP took 19% of Rosneft shares). Corporate competition logic and the drive to dominate and monopolize the Russian oil sector – rather than the readiness to pursue strategic ties with China – were key incentives of this deal. While China benefitted from advantageous terms of the contract, Rosneft again built its position in Russia with the help of Chinese money, as in the case of Yukos’s takeover a decade earlier.

Incremental growth of cooperation amidst setbacks

Contrary to developments in the pipeline gas sector, the acceleration of Sino-Russian rapprochement in the aftermath of the annexation of Crimea had a minimal effect on the collaboration in the oil sector. The foundations were laid well before 2014. The developments in the oil sector did not reflect the rising cordiality in the bilateral relationship. A succinct description of developments in the oil sector after 2014 would be a phrase ‘more of the same’. As of 2016, Russia emerged as China’s number one supplier, on par and competing with Saudi Arabia. A parallel branch of the East Siberia Pacific Ocean pipeline section to Daqing was constructed by 2018, effectively doubling the amount of oil sent directly by Rosneft to China, from 15 to 30 million tons annually.

In another sign of fragmented – rather than strategic – cooperation in the sector, the rise in China’s import of oil towards the late-2010s was generated by small independent refineries, which tapped into oil delivered to the Asian port of Kozmino. China’s emergence as the main customer of the ESPO – both the Daqing and Kozmino branches – while economically beneficial for Russian companies, undermines the Kremlin’s strategic rationale behind its decision to construct two end-points for the oil pipeline from Eastern Siberia. This rationale assumed that China would be far from being a monopsonist buyer, balanced by all other Asian customers.

As for the promoted strategic vision of bilateral relations, a relative weakness of mutual ownership and investment in each other's markets is outstanding. Despite initial promises of the Russian leadership and of Rosneft, China failed to secure shares in Russian oil fields. In 2014, CNPC was promised a possibility to purchase 10% in Russia's biggest oil field, Vankor, including Putin's words about the absence of limitations for 'our Chinese friends' (Lossan, 2014). This agreement was never implemented. Instead, China's main rival, India, managed to secure a much better access to Russian oil resources. An Indian consortium led by its state-owned champion, ONGC, acquired 49.9% of shares in Vankor between 2015 and 2019 in a series of transactions (Rosneft, 2021). The Indian consortium also acquired 29.9% of shares in Taas-Yuryakh oil field. Rosneft initially planned to sell 49% of shares to China's CNPC (Interfax, 2015). Whereas the lack of agreement on the price of assets is cited as the main reason behind the failure of both deals, the sales to China's main rivals testify that either the Kremlin sees clear limitations to the openness to 'Chinese friends' or that Rosneft can disregard the strategic partnership and follow the money. Regardless of the reasons, these cases speak against the narrative of strategic partnership.

Domestic politics intervened in the strategic partnership from the Chinese side, too. In 2017, CEFC, a private Chinese company that quickly and unexpectedly rose to prominence in the oil sector, was about to purchase 14% of the shares of Russia's oil behemoth Rosneft for the sum of US\$9 billion. The shares were to be bought from a joint venture established by Glencore and the Qatar Investment Fund (Kaczmarek et al., 2017). This transaction would have made CEFC a major player in the global oil market and China a major stakeholder in the Russian state-owned oil giant. However, before the deal was finalized, the CEFC chairman was arrested for alleged 'economic crimes' and his company nationalized in effect (Zhdannikov, 2018). The reasons behind this move remain unknown to date. The ultimate result was that China lost an opportunity to become a major shareholder in the key Russian player. Domestic politics seems to have taken precedence over strategic considerations and the cooperation hailed with Russia.

Another new contract was highlighted at the top level. During the February 2022 visit by Vladimir Putin to Beijing, Rosneft and CNPC signed another contract on the delivery of 100 million tons of oil for the period of ten years using the route via Kazakhstan (Rosneft, 2022). The fact that Rosneft continues to provide crude oil for Chinese refineries rather than sells more profitable petroleum products in the Chinese market (those accounts for 10% of total sales by Rosneft in China) demonstrates the limitations of the strategic partnership and Rosneft's inability to pursue other projects. The flagship project of the Tianjin refinery remains on paper, even though, according to the most recent announcements made by both sides, the refinery – in which Rosneft will hold 49% and PetroChina (a subsidiary of CNPC) 51% - will go online in 2026.

Natural gas – between a flourishing cooperation in the LNG sector and a bumpy road for pipeline gas

Whereas the natural gas sector tells a different story of Sino-Russian energy cooperation – one facing many more obstacles and achieving fewer results, it provides ample evidence to support the argument about the domination of fragmented cooperation in the energy sector. Sino-Russian gas cooperation stands out as occupying a relatively marginal place in both states' broader respective gas export and import policies and as delayed for at least a decade. This implies a non-strategic character of cooperation in the gas sector.

As illustrated in the previous section, Russia and China laid solid foundations for cooperation in the oil sector already in the early-2000s. In comparison, cooperation in the gas sector remained a *tabula rasa* at that time. Russia exported pipeline gas to the European market. Western (Shell) and Japanese (Mitsui and Mitsubishi) companies were engaged in one of the world's biggest LNG projects, Sakhalin-2, in which Gazprom became a major player in the mid-2000s. China was by no means present in the Russian gas market. Moreover, Russia's 2009 Energy Strategy envisioned the increase of natural gas export to Asia from 0% to 19-20% by 2020 (Ministry of Energy of the Russian Federation, 2010, 23), but the document emphasized the need to construct gas pipelines to the

Republic of Korea and China, in that specific order (Ministry of Energy of the Russian Federation, 2010, 79). China, meanwhile, secured contracts with Turkmenistan and built the system of gas pipelines through Central Asia, not hurrying to pursue cooperation with its northern neighbor. As a consequence, Sino-Russian cooperation in the gas sector has been shaped by two major non-strategic factors: fierce competition in the Russian domestic scene between Gazprom and its competitors, Novatek and Rosneft in particular, and Russian-Western fallout over the annexation of Crimea, which changed the calculus in the Kremlin.

The LNG story – China capitalizing on internecine fights in the Russian political-economic system

Even though negotiations on export of the pipeline gas began in the mid-2000s, it was the LNG sector in which Sino-Russian cooperation was implemented sooner. For almost a decade, China unsuccessfully tried to come to an agreement with Russian state-owned monopolist, Gazprom. It was only the fierce competition in the Russian domestic political economy that enabled Chinese energy companies to gain access to Russian resources. Gazprom's monopoly on export – awarded by the Kremlin in the mid-2000s – was systematically undermined by major state-owned and private players, such as Rosneft and Novatek respectively. Beijing chose to team up with Novatek, a private company that enjoyed close ties to the Kremlin.

Sino-Russian energy cooperation in the LNG sector began in 2013, which may be ascribed to China's failure to secure any contracts with Gazprom on the one hand, and the growing interest in the LNG sector on the other. This coincided with the interests of Novatek, Russia's nascent leader in this sector. Novatek saw an opportunity to weaken Gazprom's monopoly on natural gas export. China's interest in cooperation, coupled with successful lobbying on the part of Novatek pushed the Kremlin to change the rules for export. Gazprom's monopoly was limited to pipeline gas (much to Rosneft's disappointment), whereas the LNG sector was open to competition.

The Chinese side entered into the Yamal-LNG project. CNPC purchased 20% stake in the project. While cooperation started before the Russian-Western fallout over Crimea, China continued its engagement and support, even at the risk of potential secondary sanctions. The Silk Road Fund

acquired additional 9.9% stake in the project in 2015. The latter transaction was also supposed to be a symbol of converging interests of Russia and China in Beijing's new mega-project, the Belt and Road Initiative (at that time still termed One Belt, One Road). A year later, in 2016, two Chinese state-owned 'policy banks', Export-Import Bank of China and the China Development Bank, provided the US\$ 12 billion loan for the project's development. China's financial support that helped the company to implement the project ahead of schedule. It was one of a few cases when China openly helped Russia bypass Western economic sanctions.

Expanding their presence in Russia's LNG sector, in 2019 CNPC and CNOOC acquired 10% stakes each in the Arctic LNG 2 project (Novatek, 2019). Chinese companies have also been providing equipment for this project. At the time of writing it remained unclear to what extent Chinese participants would consider withdrawal from the project, given the threat of secondary sanctions on Chinese entities (Zhou, 2022).

Natural pipeline gas

Cooperation in the gas sector seemed to be a paragon of the strategic character of Sino-Russian relations. The very first time Russia and China agreed to construct a gas pipeline linking the two countries was in 2004, during Putin's visit to Beijing. However, the alleged strategic choice made by the two sides was never implemented in its originally envisioned form. Moreover, it stood in contrast to officially accepted plans for building a gas pipeline to South Korea and China. For almost a decade, Russia and China engaged in fruitless negotiations. In the meantime, Russia continued to develop the infrastructure linking it with Europe, Nord Stream gas pipeline in particular, whereas China managed to negotiate and construct a system of gas pipelines from Central Asia, originating in Turkmenistan and transiting via Uzbekistan and Kazakhstan. For Beijing, the route proposed by Russia for the gas pipeline, named *Altai*, did not make much sense after gaining access to Central Asian resources. A gas pipeline crossing the western section of the border would mean resources from the same fields that supply Europe were used for export to China. Moreover, it would require additional infrastructure to transport the gas to consumers on the eastern coast. For Russia – Gazprom in particular – price was

a major issue, with Beijing expecting a discount and Gazprom hoping for a price comparable to that paid by European customers. Thus, it is hard to pinpoint the strategic dimension of Sino-Russian cooperation in the natural gas sector.

It took the Russian-Western conflict that followed the annexation of Crimea to force Moscow to reconsider its position and to accept Beijing's terms. Gazprom's deal concluded with China in 2014, which envisioned the construction of the Power of Siberia pipeline, was necessary for Putin to demonstrate that Russia had not been isolated after the annexation of Crimea. This 'mega-deal' (deliveries for 30 years, worth 400 billion USD) remains the key reference point for a number of experts arguing in favor of the strategic dimension of the Sino-Russian energy cooperation. To what extent is such an assessment justified?

Russia's acquiescence was driven in the first place by short-term necessity – both sides agreed the terms of the contract on the very last moment of Putin's visit to Shanghai. This suggests that personal intervention of the Russian president was necessary to convince Gazprom about the contract. Vladimir Putin needed a well-publicized proof of successful resistance to Western-led attempts to isolate Russia, regardless of its economic viability. Moreover, unlike Rosneft – and increasingly Novatek – that consistently expanded their ties with Chinese counterparts, Gazprom remained committed to the European market. The Russian behemoth avoided major financial entanglements with China. The company refused a Chinese offer of prepayments that could be used for the construction of the Power of Siberia pipeline.

The terms of the contract have not made Gazprom a major player in the Chinese market while limiting the company's options in the broader Asian market. The *Power of Siberia* pipeline locks in the resources of newly developed gas fields of Eastern Siberia, making them accessible only to China. The agreement has in practice annulled prospects of any gas pipeline including the Korean Peninsula, an idea floated for a number of years and included in the 2003 and 2009 energy strategies. Moreover, China neither financed the construction of a pipeline (with the exception of a Chinese section) nor provided capital for developing the Chayanda and Kovykta gas fields. The pipeline went online in

2019 but its full capacity to be achieved by 2024 – 38 billion cubic meters (bcm) – does not make the Chinese market a priority for Gazprom, especially when compared with 150-160 bcm exported to European markets. In addition, the Central Asia-China gas system provides around 55 bcm annually, i.e. more than the capacity of the *Power of Siberia*. Taking all these factors into account implies that Sino-Russian gas cooperation faced – on the Russian end – dilemmas between political necessity of the Kremlin to demonstrate diversity of possible export directions (primarily addressing European customers) on the one hand and Gazprom's relative disregard for the Chinese market on the other. Thus, it was political expediency that drove the development of cooperation and this particular contract rather than long-term strategic cooperation.

Even with the *Power of Siberia* in place, the Russian side continued to seek China's agreement for another pipelines. The *Altai* project was briefly renamed *Power of Siberia-2*, which leads to confusion as this name now refers to the trans-Mongolian gas pipeline project (which for some time was – correctly – known as *Power of Siberia-3*). Its development started resembling the fate of the *Altai* pipeline. The Chinese side agreed to conduct talks, both sides signed non-binding memoranda of understanding but the contract seems to be a distant possibility.

The absence of any breakthrough related to new gas pipelines – especially when contrasted with a fast pace of cooperation in the oil and LNG sectors – demonstrates that the natural pipeline gas realm lags behind in an overall picture of Sino-Russian energy cooperation. The most recent contract signed during Putin's visit to Beijing in February 2022 has not changed this situation. Gazprom and CNPC agreed to increase the volume of the *Power of Siberia* by additional 10 bcm annually for another 30 years but failed to agree on any new pipelines (Chen, 2022).

A silent success – civilian nuclear energy

China concluded its first agreements on the construction of nuclear power plants in the early-1990s. In 1999, the Russian side began to construct two blocks of the Tianwan NPP, based on Russian-made

reactors of the VVER-1000 type. Moscow provided a loan of US\$ 1,5 billion at that time. In 2007 (the same year when the ministry of nuclear energy was transformed into a state corporation, Rosatom), another agreement followed that envisioned the construction of additional two blocks, implemented after the contract was signed in 2012. With each subsequent contract, the Russian side shared an increasing number of technologies and the degree of localization rose to 70%. In addition, Russia built three factories dedicated to uranium enrichment and the Russian company Tekhsnabeksport provides China with enriched uranium. Overall, Rosatom completed four reactors at the Tianwan nuclear power plant.

Despite Chinese advancements made in the civilian nuclear sector in the last decade and a half, Russia's Rosatom has managed to keep its share of the Chinese nuclear energy market, despite what might look like a saturated domestic market (World Nuclear News, 2018). In 2018, Rosatom managed to sign a contract for an additional four blocks: two at Tianwan NPP and two at a new location, Xudapu NPP. In May 2021, Vladimir Putin and Xi Jinping witnessed (virtually) the ceremony of laying the foundations for two blocks at Tianwan and Xudapu. Given Rosatom's weight and position in the Russian political economy, its participation in the Chinese market further reinforces the strategic dimension of both states' energy ties.

Conclusion: fragmented cooperation

This article proposed the concept of *fragmented cooperation*, one driven not exclusively by both states' leaderships but forged in the process of bargaining between those leaderships and domestic actors and/or by actions of domestic actors. Exploring the energy realm, I demonstrated how this type of cooperation permeated all key areas of Sino-Russian partnership. The application of the *fragmented cooperation* concept allows to account for key features of Sino-Russian energy ties, the dynamics of which evades dominant explanations: an unequal pace of cooperation in different sectors; the discrepancy between economic and political benefits from cooperation; the role of domestic infighting between Russian energy companies. It is worth to distinguish between the process

of formation of energy cooperation and its long-lasting inadvertent effects. Strategic considerations from both sides – Russia’s energy strategy towards Asia, the need for China’s political support, China’s securing of energy supplies – have vied with parochial interests of major players in the sector and their key role in implementing those deals. A number of state-owned monopolists have reached out to the Chinese market and benefitted from China’s openness. Faced with the fiasco of talks with Gazprom lasting for almost a decade, Chinese companies turned to its private competitor, Novatek. Power politics explains the deal with Gazprom but the slow pace of cooperation and the lack of Chinese enthusiasm for new pipelines in the aftermath of the Russia-Ukraine war

Can Russia’s war in Ukraine be expected to change the dominant patterns in Sino-Russian energy collaboration? Are there any viable prospects of fragmented cooperation being replaced by its strategic version? Russia’s war against Ukraine has the potential to open a new chapter in Sino-Russian energy cooperation. Beijing may be tempted to step in and offer financial support to Russian energy behemoths, ultimately upholding Putin’s regime. China may even decide to go one step further and agree to construct a long-negotiated gas pipeline from Western Siberia, which in the long-term perspective would save Gazprom from the closure of the European market. Such a move, coupled with the already existing structures of energy cooperation, would entrench China’s position in the Russian energy sector, regardless of future domestic political changes in Russia.

The first year of the war seems to entrench the existing foundations of cooperation. China increased the amount of oil it purchases from Russia but this seems to be driven by individual decisions of Chinese companies – including small independent refineries – which want to benefit from discounts Russia was forced to make. Thus, it can hardly be considered Beijing’s strategic choice. Moreover, in the area where Beijing has the potential to make a difference – the construction of a new gas pipeline transiting Mongolia, the Chinese side remained cautious and unwilling to commit itself to a project that would strengthen Russia’s hand.

A sub-theme of this paper is that China has increasingly been driving energy cooperation with Russia. This effect was visible in a successful renegotiation of the Rosneft contract in 2011, entering into the

LNG market, or forcing Gazprom to accept Chinese terms after 2014. Russia's turn away from the European gas and oil markets will only deepen this asymmetry. It is up to China to decide whether a new gas pipeline – without which Gazprom cannot deliver its gas to the Chinese market – is going to be built. China will define how much it is going to offset Russian losses in the oil market by purchasing more resources. Moscow will increasingly face a difficult choice between making further concessions towards China and bringing in other partners in Asia, such as India. While this approach can work in the upstream sector and in the oil trade, it is hardly feasible in the pipeline gas sector. Given the relevance of energy for both Russia's current political-economic system and for Russian-Chinese relations in general, the implications of Beijing's upper hand may have consequences reaching beyond the energy realm. China may expect concession in non-energy areas, such as the acceptance of Beijing's hegemonic claims in East Asia, more active support in third regions, or further opening of the Russian Arctic to China.

What are broader implications of adding *fragmented cooperation* to the spectrum of different logics depicting Sino-Russian relations? First, it pushes us to explore and understand Sino-Russian cooperation with emphasis on particular issue-areas and sectors. Fragmented cooperation is just one mode in which relations develop at the same time. Second, the concept of fragmented cooperation forces us to un-black-box the Sino-Russian relationship and to reconsider who key players shaping this relationship are, apart from top leaders.

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