



Determinants and considerations of Rosatom's external strategy



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ABSTRACT

It is no secret that Russia considers its energy sector to be of paramount importance in maintaining its global position. Nevertheless, the global nuclear market is highly competitive. This influences the behaviour of Rosatom State Nuclear Energy Corporation and sets it apart from the other Russian energy enterprises. The ongoing discord between Russia and the West, with incidents arising at an increasing frequency, raises concerns about the company's sizeable foreign presence. However, the analysis offered here shows that, despite various considerations affecting the corporation's ambitious external strategy, its interests are economic, and it is economic logic that prompts the company to focus on projects abroad. Therefore, fears of the Russian nuclear giant and politicization are unwarranted.

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1. Introduction

It is no secret that Russia considers its energy sector to be of paramount importance in maintaining its global position. The country's understanding of the overlap between its energy and foreign policies became apparent for the first time in the 2003

Energy Strategy. The document noted that Russia's 'significant energy resources and powerful fuel-energy complex were instruments for conducting domestic and foreign policy' and that 'the role of the country on global energy markets to a great degree determined its geopolitical influence' [1]. In light of this, an increased global presence on the part of Rosatom State Nuclear Energy Corporation, the sole Russian nuclear technology provider, might at first sight seem worrisome.

The draft Energy Strategy of Russia up to 2035 [2] lists the growth of export potential of the Russian nuclear technologies, further export of nuclear power and services as well as nuclear power plants as one of the five primary objectives of the nuclear industry development. This envisions a tangible stress on the exports and external expansion that Rosatom should reckon with, being a state-owned corporation. Indeed, according to the Russian federal law that has established Rosatom back in 2007, the President of the Russian Federation has some competences with regard to Rosatom, including appointing the corporation's Director General and the members of its Supervisory Board, while the Government approves the long-term strategy of the Corporation [3].

In this way, in 2011, Rosatom's Supervisory Body approved a new long-term development strategy that turned out to be tangibly export-oriented. The strategy is valid until 2030, when the share of revenues from foreign operations is expected to reach 50%, with the share of revenues from foreign assets at 25%; the corporation is also to be in the top-3 in all segments of the global nuclear market and to have contracts for the construction of 30 nuclear units abroad,

Abbreviations: AO, Joint-stock company (Акционерное общество) – a type of public limited company in the Russian Federation; BN, Fast Sodium-Cooled (Быстрый Натриевый) – designation of Rosatom State Nuclear Energy Corporation's sodium-cooled breeder reactor; BOO, Build-Own-Operate – designation of the investment scheme for the construction of nuclear power units; BWR, Boiling Water Reactor; CEO, Chief Executive Officer; CNNC, China National Nuclear Corporation; EIA, US Energy Information Administration; ENUSA, National Uranium Corporation (Empresa Nacional del Uranio S.A.); EU, European Union; GDP, Gross Domestic Product; HEU, Highly-Enriched Uranium; IAEA, International Atomic Energy Agency; IEA, International Energy Agency; NEA, Nuclear Energy Agency; kWh, kilowatt hour, unit of electric energy; LEU, Low-Enriched Uranium; LLC, Limited Liability Company – United States-specific form of private limited company; MOX, Mixed Oxide – designation of a reprocessed nuclear fuel that consists of blended oxides of plutonium and uranium; NNL, National Nuclear Laboratory; NPP, Nuclear Power Plant; PWR, Pressurized Water Reactor; S.A., joint-stock company (Sociedad Anónima) – a type of public limited company in Spain and some other countries; TVEL, Heat-Releasing Element (Тепловыделяющий Элемент) – the name of Rosatom's fuel division; US, United States; VVER, Water-Water Energetic Reactor (Водо-Водяной Энергетический Реактор) – designation of Rosatom State Nuclear Energy Corporation's Pressurized Water Reactor design.

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with up to 78 projects in its foreign orders portfolio [4]. When it comes to particular segments of the nuclear market, by 2030 Rosatom plans to have around 42% of the enrichment market and 22% of the nuclear fuel fabrication market (for comparison, at the start of 2016 the company claimed to have 39% of enrichment services and 17% of nuclear fuel fabrication) [5]. Hence, it is clear that the Russian nuclear giant has ambitions for its foreign operations and projects abroad.

Because of the continued divide between Russia and the West, the worries of host countries over the reliability and desirability of Rosatom's investments and participation in nuclear projects have further intensified. It is common to hear concerns about Russian economic engagement and misuse of its market power, especially in the energy sector. The efforts of some European countries to prevent Russian companies from entering their energy markets are illustrative: the negative reception Gazprom received when it wished to buy Centrica (British Gas) in the UK; the adoption of the so called 'Gazprom clause' in the EU, banning non-EU companies from taking control of any EU energy network without a reciprocity agreement between Brussels and that company's home government; Rosatom being left out of the running for planned nuclear projects in Poland and Lithuania, etc. (for further references see Refs. [6–9]). Such a logic assumes that Rosatom is no different than other Russian firms, and its ambitious external strategy and growing global presence are politically motivated. But Rosatom's deputy CEO, Kirill Komarov, addressed the issue in unequivocal terms: 'When Rosatom decides on a project, we are guided first of all by economic considerations. I know of no precedent for anything driving us to accept a knowingly unprofitable project' [10]. Such a statement is, however, to be expected from the company's executive. It is therefore of prime importance to analyse the factors that underlie Rosatom's external behaviour, and to answer a question of tangible relevance for decision-makers: what are the key drivers and considerations of Rosatom's external strategy? Or to put it in practical terms: is fear of the Russian nuclear giant reasonable?

Since this issue has not yet received the attention it deserves, the analysis presented here is of visible added value. Analytical studies of Rosatom's foreign operations and their actions abroad are extremely rare; one exception worth mentioning is 'Energy Security in Central and Eastern Europe and the Operations of Russian State-Owned Energy Enterprises' [11]. But even this study is focused on a particular region, analysing the nuclear sectors of the countries within it. Hence it may still bear fruit to widen the focus beyond the region, concentrating on the Russian nuclear corporation.

For convenience of narration, the analysis is divided into the following sections: first, the basic assumptions and overall framework are presented. This will help to place the research within the field, allowing us to move forward with the analysis itself, which examines the different factors that underlie Rosatom's activities abroad. The discussion section elaborates on the relations between the approaches to energy policy with regard to Rosatom's external strategy and the contribution they make to the overall picture, allowing the logic of the corporation's external strategy to be discerned. The conclusion summarizes the findings and provides an answer as to whether concerns over Rosatom's activities are justified. This has clear practical and strategic implications.

2. Research framework and theoretical assumptions

As noted, there is a certain link between the Russian energy sector and the country's geopolitical stance. The implications for the energy security and foreign policy of countries in the EU and beyond has been well-covered in the academic literature (see Refs. [12–21]). The consensus is that the Russian energy sector is strongly controlled by the state. This then implies that Russia takes

a strategic approach to energy policy and its energy resources. Such an approach is an outgrowth of classical realism, neorealism, and neoclassical realism, emphasizing the anarchical nature of international relations, structured by power and based upon material factors that include energy sources crucial to the functioning of the economy and the military sector (see Refs. [22–32]). It regards states as unitary actors driven by an effort to gain superiority over other states, which makes state involvement in the economy (and energy issues) highly plausible. With regard to the focus of this analysis, this effectively means that, given the subordination of commercial interests to the political goals of Russian elites, it is not the Russian energy companies themselves that are under scrutiny here, but rather the interests of the state and its behaviour. To summarize the strategic approach simply, it involves engaging in behaviour that does not necessarily lead to capitalization and that generally rejects an economic logic as the main determining factor in energy policy.

We believe, however, that there is much more to this issue than meets the eye. The market approach to energy security, as the antipode to the strategic approach (with its roots in Liberal thinking in International Relations [28–33]), may prove useful in this regard. It is characterized by a strong inclination to support cooperation and a trust in market forces to most effectively allocate energy resources. Hence, rational actors opt for the most optimal strategy to secure energy resources, making influence by the government a negative: an ineffective disruption of the market mechanism. Under this logic, energy independence is hardly possible, and any attempt to achieve it disrupts cooperation and interstate relations.

We believe the market approach, of the two theoretical approaches to energy policy, is the more appropriate basis to choose for analysis. First off, it is the energy company itself and its overseas actions and operations that are to be the focus. No matter who its owners are, Rosatom is a company with commercial interests, and in the global nuclear market, competition is tough. It is particularly important to note the difference between Rosatom's rhetoric and behaviour and that of Gazprom—while the latter is tied up with Russia's foreign policy, Rosatom has made an effort to distance itself from foreign policy developments. Second, Rosatom's prospects abroad cannot be simplistically attributed to the global stance and position of Russia: the company is largely compelled to follow the rules of the marketplace and to submit to the existing operational framework, but even going beyond by breaching these rules to capitalize on opportunities is typical behaviour for players motivated by economic reasoning. Third, in the face of threats to its business interests, Rosatom utilizes the tools it has available, and these extend beyond what is provided by the Russian state. So the corporation works on building up its own capacities as an independent actor operating in an economic realm.

Hence we oppose the notion that Russia's strategic concerns in the energy sector drive the actions of this particular company. The notion is not irrefutable, even though it is frequently believed to be so. We argue that, at the very least, Russia's energy enterprises must be differentiated, and the research presented here gathers more evidence in favour of the market approach with respect to the primarily economic basis of the company's external strategy.

3. Analysis of factors affecting Rosatom's external strategy

There are understandably many reasons and considerations that have been taken into account in elucidating Rosatom's approach to the global market, but conceivably there may be a single underlying logic that dominates. It leads in general to the issue of economics vs. politics in Rosatom's foreign operations. But such intangible phenomena as prestige and mindset must also be addressed to provide a complete picture.

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