CHAPTER 6

RUSSIA'S ENERGY SECURITY POLICY IN THE CASPIAN REGION: 2000-2004

Introduction

The last chapter tried to understand the state affairs, especially the energy sector policies, under President Boris Yeltsin. Since Putin has taken over the rein of Russian federation in 2000 there has been a dramatic change in Russia’s foreign policy. Since the beginning Putin objective was to regain the lost glory of Russia and to create a multi-polar world order. To achieve these goals he emphasized the economic development of the country and he has given importance to energy sector as it is the major source of income for Russia. The first step he has taken in this direction was to rein in oligarchs, who became extremely wealthy during President Yeltsin’s period. He has started measures to nationalize oil companies which had been sold out for throw away prices during the tenure of previous President Boris Yeltsin. Secondly Putin put up an assertive face of Russia in international forums and vehemently opposed the unipolar world order, led by United States. He has taken steps to accelerate co-operation between countries like China, India and Central Asian countries. And in the Caspian Sea front Putin initiated talks to resolve the legal disputes regarding the partition of Caspian and successfully gained more shares in the oil production of central Asian countries.

Multipolar world View

Russia for the first time it clears to the near abroad region is vital importance for Russian security in a world often dictated by United States. The Foreign Policy Concept adopted by presidential decree on June, 2000, calls for the establishment of a belt of good neighbors around Russia's perimeter. As the strongest Eurasian power, Russia asserts in the Concept that "the [U.S.] strategy of unilateral action may destabilize the world, because the use of force represents the basis for international conflict (Cohen 2001). Russia's opposition to unipolar world as United Sates in the leading role began under former Prime Minister Primakov and has continued escalating since Putin's ascent.
Before Vladimir Putin appointed to his country's highest office, as the head of the National Security Council, director of the FSB, and then acting prime minister, he presided over the formulation of four important government documents that articulate Russia's foreign and defense policy. These documents, taken together, explain the Doctrine for Russian national security in the 21st century. The documents include: A Defense Doctrine published in draft form in October 1999 and reissued by presidential decree on April 21, 2000; A National Security Concept unveiled in January 2000, The Foreign Policy Concept adopted on July 30, 2000; and The Information Security Concept adopted in August 2000 (Ambrosio 2005:29).

Following the themes first espoused by former Prime Minister Primakov, these documents decry the emergence of a unipolar world dominated by the United States. The document express the concern over United States aggressive and often anti Russian policies in the Eastern Hemisphere; the East Europe, the Trans-Caucasus, Central Asia, the Asia-Pacific region, and the Middle East. It takes a serious note of expanding NATO to the east ward of Europe, Which Russian perceives as a threat to its national interest and security. The doctrine condemns the use of force by NATO under U.S. leadership as both a violation of international law and a dangerous security trend. It should be noted that for the first time since the end of the Cold War, the Kremlin calls the United States a major threat to the Russian state. This represents a radical departure from Yeltsin's foreign policy documents, which proclaimed that Russia has no external enemies and that the main danger to the Russian state stems from such domestic concerns as crime, corruption, and political extremism (Donaldson and Nogee 2005).

The National Security Doctrine broadly defines threats to the Russian state, including the establishment of foreign military bases in proximity to Russian borders. The doctrine takes a serious not on proliferation of weapons of mass destruction and their delivery systems, it also envisages the first use of nuclear weapons by Russia if it is attacked by non-nuclear weapons of mass destruction, such as chemical warheads or biological weapons, or by an overwhelming conventional force. It brands as threatening the weakening of the integrative processes in the Commonwealth of Independent States (CIS). It cautions about claims to Russian territory and warns that conflicts close to Russia-CIS borders could escalate (Ibid).
While a more confident and anti-American Russia is emerging under Putin's leadership, this does not mean that the new Bush Administration should fear that a conflict with Moscow is either imminent or necessary. Some experts in Russia have suggested a "grand bargain" that balances U.S. acceptance of deeper strategic arms cuts and Russian foreign debt rescheduling with Moscow's acceptance of U.S. deployment of a national missile defense system and a significant reduction in military cooperation with China and Iran. But as Russia's cancellation of the secret Gore-Chernomyrdin deal and the $3 billion arms deal with Tehran signed by the Russian Defense Minister show, it is becoming more difficult to rely on Moscow's promises to curtail proliferation. Moreover, the Kremlin has shown little flexibility on U.S. national missile defense plans, and the economic outlook for Russia's economy hardly justifies debt rescheduling.

In addition to rescheduling parts of its $58 billion sovereign debt to the Paris Club, Russia wants Western help in its effort to accede to the World Trade Organization (WTO) and cooperation on fighting radical Islamic terrorism. Economic growth in Russia would help to make Moscow's policies more trade-friendly and less security-oriented. The growing clout of Russia in the region forced the Bush administration to launch aggressive designs in the east Europe: A proposal to deploy a national missile defense in pretext of an imagined threat from Islamic terrorists. United States is panicked over the growing cooperation between Russia and China and under siege Iran (Gardner 2007). But in a swift diplomatic move that put Washington in a dilemma Putin himself offered deploy such a defense system for U.S provided financial support from Washington.

Putin's Diplomatic Initiatives

Russia occupies a unique geopolitical position. It abuts most of the important regions of the Eastern Hemisphere, including Western Europe and the oil-rich Middle East. It is a prime exporter of the arms and energy many of these regions desire. Such a position enables President Putin to focus his foreign policies on ways to increase Russia's prestige and power. Putin also initiated steps to attract foreign investment but with the strict rules and regulations, which gives priority to the national interest of Russian. Domestic policy level he emphasised the need of improving the law and order (Mcfaul 2000). Russia is
already exporting a large amount of its natural resources and industrial goods to emerging markets in Asia. As economic growth continues in China and the Asia-Pacific region, these markets will likely become more important to Russia's economy than the markets in Europe. China alone offers Russia a large market where it can sell goods ranging from grain to nuclear reactors and AWACS planes. Russia has improved its relations with Asian states like China, Korea, and Japan.

Vladimir Putin began whirlwind foreign policy initiatives to improve Russia's status in the region and the world even before he became president of Russia on May 7, 2000. After becoming prime minister in August 1999 he met with President Clinton five times. As acting president, he met with British Prime Minister Tony Blair in St. Petersburg on March 11, 2000. Since becoming president, he has visited the major Western European countries, including Great Britain, Germany, France, Italy, and Spain. He has visited China, Japan, Mongolia, and also North Korea and Cuba. And he has made appearances in the Central Asian states of Uzbekistan, Turkmenistan, and Kazakhstan, hoping to enhance Russia's status in this energy-rich region. This is an impressive itinerary for Putin's first year in office. This initiative extends to officials within his administration as well, as the recent meetings in Moscow of high-ranking national security officials from Russia with similar officials from Iran and Iraq.

Putin's effort to enhance Russia's position includes a promise to increase substantially the sales of Russian oil, natural gas, and electricity to Europe. Moreover, to gain a louder voice in European security policy the Putin administration has broached the idea of joining the controversial European Security and Defense Policy (ESDP) initiative, a joint military structure for the European Union (EU), that Russia hopes will counterbalance America's role in European security in the North Atlantic Treaty Organization (NATO). To boost Russia's influence Putin has signed arms deals with China, India, and Iran, in 2000 that total almost $10 billion. Weapons sales generate revenue for Moscow to use in the strategic modernization of Russia's aging military forces; they also strengthen Russia's influence in important areas such as the Taiwan Strait, the Kashmir region between India and Pakistan, and the Persian Gulf. While Putin has announced plans to reduce Russia's nuclear forces significantly to between 1,000 and
1,500 warheads, either in a negotiated treaty or in tandem with the United States. He strongly opposed the deployment of a national missile defense (NMD) system for America (Cohen 2001). To strengthen his position as a global leader, Putin made appearances at the G-8 summit in Okinawa and the Millennium Summit at the United Nations in September 2000, the summits of the Commonwealth of Independent States (CIS) in Moscow and Yalta, a bilateral summit with the EU in Paris, and the Asia-Pacific Economic Cooperation (APEC) forum in Brunei in November. Behind this public relations effort is a steely commitment to Russia's re-emergence in the international politics (Bugajski 2004).

The focus on Russia's strategic and economic interests covers up the inherent weakness in this approach: the Russian economy, which is based on obsolete industries and a rapidly aging population and which has contracted by more than 50 percent since the collapse of the Soviet Union. Putin and his administration realised the oil and gas are the only resource for Russia to strengthen its economy. Another important diplomatic challenge to Putin was the rise of US influence in the Caspian region, which reminisce the 19th century “Great Game” for control of Central Asia and the Caucasus. As one of the western observer notes “It appears, from Russia's actions and national security and foreign policy documents, that the opponent it has chosen is the United States. Putin is campaigning for allies in this effort by making deals with states like China and India” (Fawn 2003: 124).

Russia is looking in the 21st century to strengthen its ties to its neighbors to the East and West and to create alternative foci of power to offset the hegemony of United States. Russia's elites are preoccupied with advancing "Eurasianism," which sees Russia as the "ultimate World-Island state" apart from, and hostile to, the maritime and commercial Euro-Atlantic world. Russian analysts such as Tikhonravov argue that the nation holds a special place in the Eastern Hemisphere as a counterbalance to the "globalist" U.S.-led hegemony. Eurasianists advocate closer cooperation with China, the Arab world, and Iran while taking an anti-Turkic stand (Trenin 2002).
Russia and China are in the process of negotiating a Treaty of Friendship and Cooperation, which they are expected to sign when Chinese President Jiang Zemin visits Moscow in mid-2001. Analysts have suggested that the treaty may have secret appendices outlining the conditions for a common defense, military cooperation in space, cooperation on military technologies, and new weapons sales. Russia is already selling nuclear weapons blueprints, multiple warhead (MIRV) technology, Sukhoi-27 fighter jets, and, most recently, $1 billion worth of A-50 Beriev AWACS early warning planes to China that will make it possible for the People's Liberation Army to coordinate its air, surface, and naval operations in areas like the Taiwan Strait. Russia supports China's claims regarding Taiwan, and China supports Moscow's activities in Chechnya (Rossiyskaya Gazeta 8-8-2000). Finally, both Russia and China have vociferously opposed Washington's plans to deploy a Nuclear Missile Defence (NMD) system in the east Europe.

Restoring ties with Europe has become a personal objective for Putin, who has cultivated a friendship with Prime Minister Tony Blair and also has carefully strengthened Moscow's ties to Chancellor Gerhardt Schroeder of Germany. As France and Germany have sought to strengthen the European Union and offset European military reliance on the United States, Moscow has begun to express an interest in joining the ESDP, which would drive a wedge between Europe and the United States. Russia's offer to construct a common missile defense with the EU may have been made with the same strategic goal in mind. However, Putin, who had suggested in March 2000 that Russia may one day be interested in joining the NATO alliance, later disavowed this possibility.

During this period Russia started actively involving in the Mediterranean, the Persian Gulf, and the Middle East, which Washington sees as an attempt to exploit anti-American sentiments prevailing in those regions. Since 1991, Russia has sold Middle Eastern countries $6.9 billion worth of modern weapons, including almost $3 billion in sales to Iran alone (Staar 2000). Aided by its multibillion-dollar missile, military technology, and civilian nuclear reactor deals with Russia. Moscow disclosed that, in summer and fall 2000, it shipped 325 shoulder-launched anti-aircraft SA-16 missiles to Tehran, part of a deal totaling 700 missiles worth $1.75 billion. U.S. objections over this
sale were met with terse advice from Russian Foreign Minister Igor Ivanov: The issue is that Russia, when it comes to military cooperation with Iran as well as with other countries, does not consider itself constrained by any special obligations in spheres which are not restricted by international obligations (The wall street journal 1-12-2000).

The six-nation Shanghai Cooperation Organisation (SCO), dominated by China and Russia called for deadlines to be set on the U.S. military presence in Central Asia. "Considering that the active phase of the military anti-terrorist operation in Afghanistan has come to an end, member-states... consider it essential that the relevant participants in the anti-terrorist coalition set deadlines for the temporary use of the provisional infrastructure and for their military contingents' presence in those countries," (Radyuhin 2005) the SCO said in a political declaration adopted at its summit meeting in Astana, Kazakhstan. Assurances of support for "the international coalition which is carrying out an anti-terror campaign in Afghanistan" and the mention of "the progress made in the effort to stabilize the situation" in that country did little to mitigate the open challenge to the U.S. mounted by the five-year-old Shanghai group, which unites Russia, China, and the four Central Asian republics of Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan. After 9/11 the U.S. set up military bases in Kyrgyzstan and Uzbekistan for operations in Afghanistan, and its military officials have repeatedly said they intend to stay in Central Asia.

The demand for the U.S. military withdrawal from Central Asia reflected the SCO's resolve to take full responsibility for the region and insulate it against "people's power revolutions" the West orchestrated in the former Soviet republics of Georgia, Ukraine and Kyrgyzstan. The Islamist-led armed revolt in Uzbekistan's Andizhan on May 13-14, which claimed hundreds of lives, showed the dangers of attempts to stage "velvet revolutions" in Central Asia. Speaking at the SCO summit, Uzbekistan President Islam Karimov asserted that behind the Andizhan violence stood forces that sought to "change the situation in the region in their favour". Uzbekistan has already introduced limitations on flights of U.S. aircraft from its airbase at Khanabad forcing the U.S. military to redeploy some planes and hardware to an airfield in Afghanistan.
"The problem of religious and political extremism poses a serious threat", while its roots "lie outside the [SCO] organisation", Kazakhstan President Nursultan Nazarbayev said at the summit. The SCO leaders signed a "concept on cooperation in fighting terrorism, separatism and extremism", which provides for joint anti-terrorist activities, joint manoeuvres, training of personnel and cooperation in the "development and use of modern technical equipment for fighting new challenges and threats" (Radyuhin 2005).

The tone for the SCO summit was set in Moscow where President Vladimir Putin and Chinese President Hu Jintao met to sign a "Declaration on the World Order in the 21st Century", a patently anti-U.S. political manifesto. The declaration announced the countries' resolve to establish "a new security architecture" that would promote "a just and rational world order based on the respect of the right of all countries to equal security". In a thinly veiled attack on the U.S., they called for abandoning the "mentality of confrontation and bloc-building, efforts to impose monopoly and domination in international relations, attempts to divide countries into the leaders and the led". Russia and China denounced attempts to "ignore objective processes of social development of sovereign states and impose on them alien models of social and political systems" - a clear reference to U.S.-sponsored "velvet revolutions" in the former Soviet Union. "All countries of the world must strictly abide by the principles of mutual respect for the sovereignty and territorial integrity, mutual non-aggression, non-interference in internal affairs of each other, equality and mutual benefit (and) peaceful coexistence," the declaration said (The Frontline 2005).

The SCO summit, which took a historic decision to expand the regional grouping by inducting India, Iran and Pakistan as observers, showed the contours of "new security architecture" for Asia promoted by Russia and China. With the admission of new members, the SCO dramatically expanded its zone of responsibility and created a new security landscape in a vast strategically important region through which the U.S. drew its "axis of evil" covering Iraq, Iran and North Korea. The expansion and increased assertiveness of the SCO can be seen as a response to Washington's mythical "axis of evil" and the export of "global democratic revolution". Ahead of the summit, Russian officials hinted that the U.S. had indicated a desire to join SCO as observer. But the U.S. was rebuffed even as its arch-enemy Iran was invited.
Energy Exports as a Foreign Policy Tool

One of Putin's primary tools in implementing his foreign policy has been energy and commodity exports. For example, Putin has resurrected the Soviet-era plans to build a gas pipeline from the Arctic Yamal peninsula into the heart of Europe through Belarus and Poland, bypassing Ukraine. Such a route will weaken Ukraine by denying Kiev tariff revenue from the pipeline and will prevent unauthorized siphoning off of Russian gas (Wendlandt2001:4). Russia's natural gas monopoly, Gazprom, is supporting this proposal. Some Russian officials are also demanding that the government seize control of the Ukrainian natural gas distribution network and other industrial enterprises to repay the existing $1.2 billion Ukrainian debt to Russia for past supplies. In addition, Russia cut off the natural gas supply to Georgia, plunging its capital, Tbilisi, into darkness for a while. Critics believe such interruptions in supply are designed to force Georgia to side with Moscow over such issues as Chechnya and the direction of the pipelines through the Caspian Sea region (Cohen 2001).

The current instability in the Middle East compelled the energy-hungry EU countries to increase their imports of Russian natural gas. It gave a boost to Russian oil industry and also a kind of bargaining power with EU. Further Russia is planning to sell electricity to Europe and Japan, and possibly to China. But history shows that energy trade is often linked to security cooperation. Political instability or policy differences can threaten energy exports and thereby force the dependent country to mute its concerns. For example, Europe, especially France, is already toning down criticism of Russia's actions in Chechnya. Poland is decreasing its support for Ukraine. Thus, with higher dependency on energy from Russia, the EU may become even less critical of Russia's assertive foreign policies (Cohen 2001).

Putin and Russian oil industry

In the beginning of Putin's term as president, The Russian oil industry had been dominated by five companies: Yukos, LUKoil, Surgutneftegaz, Tyumen Oil Company (TNK) and Sibneft. Combined, they account for about 70 per cent of the country's oil production. The rest comes from Russia's roughly 150 small-to-medium-sized oil
producers. Their oil fields are maintained using modern technologies from around the world as many of the old command economy institutions have been streamlined. But since the country's oil production boom beginning in 1999, Russia's oil export infrastructure has not expanded to keep pace with production capacity and demand. As a result, Russia's oil producers are constantly struggling with bottle-necks that restrict their output growth. Oil exports via pipeline fall under the exclusive jurisdiction of the state-owned monopoly Transneft. The Transneft pipeline system currently has a maximum export capacity of some 3.5m bbl/d. However, given Russia's net exports of approximately 5m bbl/d, the Transneft system alone yields a 1.5m bbl/d deficit. As a consequence, Russian oil producers have recently taken advantage of the phenomenal world oil prices and re-directed surplus oil via the rail and river barge systems to external markets. Some of the deficit is also overcome through the export of petroleum products (BP Statistical Review2004).

Putin has inaugurated his term in office by launching a programme of economic reforms focused on tax cuts to be offset by projected levies on the oil industry. The time has thus come for the Kremlin to end its temporary, effective power-sharing with the oligarchs; These are the country's super-rich captains of industry--particularly the lucrative oil industry whose wells produce 9m barrels a day and earn a quarter of the national income. The oligarchs grabbed their riches in the messy mass privatization that followed the collapse of Soviet domination a decade ago. They did that by using connections and guile to buy state assets at knockdown prices. They controlled as much as 70 per cent of the Russian economy. Putin has now set out to pick them off one by one. A commentator has aptly compared the present conflict to the historic confrontation between Peter the Great and his boyars (Maugeri 2006).

One of the most prominent among the oligarchs is Khodorkovsky, a colourful and prominent figure aged only forty, credited with a $15.2bn personal fortune and a place on the Forbes list of the seriously rich. He was until recently the chief executive of Yukos, Russia's biggest oil producer. Khodorkovsky was arrested on 25 October, following the arrest of Platon Lebedev, his number two. Their cases are now in court. Khodorkovsky has pleaded innocent to all charges. He has resigned from his post as chief executive, in
order to protect Yukos. The state has frozen some 40 per cent of the company’s assets. Key Yukos shareholders have offered to relinquish their own stakes to the state in return for Khodorkovsky’s release. At one point, Russia’s RTS stock exchange took a near-15 per cent beating over the affair. Analysts have described the Yukos scandal as the biggest political and economic crisis of Putin’s initial three-year period in office.

The Russian authorities have been seeking the extradition of several oligarchs now living abroad. These include Boris Berezovsky, who has been granted asylum in Britain, and Vladimir Gusinsky who has managed to argue before both the Spanish and the Greek courts against being sent back to Russia. A successful approach towards substantial infrastructure investment was taken before the Yukos scandal with the purchase by British Petroleum of a 50 per cent stake in TNK, as well as other assets held by TNK’s shareholders. BP now has 13 per cent of its capital assets deployed in Russia. TNK-BP holds oil reserves of 5.2bn barrels and has an annual production capacity estimated at 1.2m bbl/d, making it Russia’s third largest oil producer. The deal also includes retail outlets in Russia and Ukraine. The $6.35bn accord provided for the largest single foreign investment in Russia since the collapse of the Soviet Union. It was widely considered by industry analysts as a sign of dramatic improvement in Russia’s investment climate.

Their guess may well prove self-fulfilling, and ultimately decide the fate of the oligarchs. That is why the moment favours Putin in his historic confrontation with them. For the dependence of the West on stable oil supplies from any reliable source outside the turbulent Middle East cannot be overestimated, nor the distaste of many of its policy makers for the shadowy deals done by the oligarchs during the post-Soviet privatization period, to which they owe their challenged financial assets today.

After the Russian government declared a moratorium on the repayment of its debt on August 17, 1998, most Russian banks, including Khodorkovsky’s Menatep bank, simply closed their doors, depriving hundreds of thousands of ordinary Russians of their savings. Rather than try to help depositors and other lenders, Khodorkovsky took whatever sound assets he could salvage and diverted them to a subsidiary in St.
Petersburg, beyond the reach of his creditors. After lengthy and often halfhearted intervention by the government, Menatep eventually agreed to provide token compensation; so did Yukos, to those who had taken its stock as collateral for loans to the company. But by the time Khodorkovsky was through issuing new shares and watering down the old stock, few of the banks' depositors or lenders had much to show for their efforts.

Still, it was less Khodorkovsky's financial skullduggery than it was his interference in political matters that upset Putin. Khodorkovsky was reported to have offered Russia's two liberal parties, Yabloko and SPS (the Party of Right Forces), $100 million to unite and campaign together in opposition to Putin and his United Russia Party. Khodorkovsky also actively promoted legislation that would benefit Yukos. It was said that, to ensure such support, he bought control of as many as 100 seats in the Duma (the lower house of the Russian parliament), including several held by members of the Communist Party. Whether the rumors were true or not, he was able to head off attempts by the Duma to increase taxes on petroleum producers in 2001 and 2002. Khodorkovsky's methods were a fundamental challenge to their control of the country—or, as one noted, "A danger and threat to the Russian state."

Ironically, just a few years earlier, Khodorkovsky had decided to turn over a new leaf, at least in financial matters, and he started to change the way he ran his business. In 1999, he espoused the importance of transparency for himself and his fellow oligarchs. He hired Western accounting firms, and Yukos became one of the few Russian companies to acknowledge who its main stockholders were. It began to pay back wages to its employees and publish a more complete statement of its tax obligations. Khodorkovsky reorganized Yukos' board of directors, bringing in several well-respected Western investors, lawyers, and businessmen. He also established the Open Russia Foundation, a charity supporting educational and cultural projects, and recruited Henry Kissinger, Lord Rothschild, and Arthur Hartman, the former U.S. ambassador to the Soviet Union, for its board. Once he had made his billions, he, like the American robber barons, decided it was time to become charitable and play by the rules.
As many in the West applauded these changes, Khodorkovsky became increasingly self-confident and even brazen. Eager to export more oil, he called for the building of new pipelines: one to the Arctic port of Murmansk (a base for exports to the United States), another through Siberia (toward Asian markets). For the latter, he favored a pipeline to China, despite the government's preference for a route to the Pacific, which would serve Japan. Although both proposals already were a direct challenge to Transneft, the state monopoly that owned and operated all of Russia's pipelines, Khodorkovsky announced that he was prepared to build his own pipelines if necessary.

Khodorkovsky's financial shenanigans were hardly exceptional. The authorities could have brought similar charges of underpayment, tax evasion, bribery, murder, or attempted murder against many of the oligarchs. It was the audacity that Khodorkovsky and his Yukos subordinates displayed in interfering directly in politics that made them a special target. Like Gusinsky (who was jailed for a time) and Berezovsky (who was exiled) before him, Khodorkovsky provoked Putin by criticizing him and supporting opposition parties and candidates.

To those who believe in the supremacy of the state—as most Russians do—Khodorkovsky's aggressive behavior was suspect on any number of counts. An even more basic question, however, was whether he has the right to claim for himself so much of the wealth that had until recently belonged to the state or, to the people at large. From their perspective, the oligarchs had done nothing to deserve such good fortune. The country's resources had been stolen through the manipulation of a poorly conceived privatization process, thanks to rigged bids, bribes, violence, and dubious interpretations of the law. Until late 1999, moreover, almost none of the oligarchs had done much to restructure or improve the assets they had acquired from the state.

In December 2004 Russian sell-off of parts of its $40 billion oil giant, Yukos, at the basement price of $9.4 billion. Looking more closely at the dismemberment of Yukos, (the world's 21st largest energy company, once pumping nearly 2 Million barrels of oil daily) is instructive in understanding a determined Putin's efforts to rein in oligarch the class who were calling shots in Russian political and economic landscape since Yeltsin's time.
One of Putin's first steps was to declare a change in the rules of the game. As he put it in a meeting with the oligarchs in February 2000, "It is asked, what then should be the relationship with the so-called oligarchs? The same as with anyone else. The same as with the owner of a small bakery or a shoe repair shop." That Putin said this at a special meeting with the oligarchs and not with a group of bakers or cobblers is beside the point; the statement was taken as a signal that the tycoons would no longer be able to flout government regulations and count on special access to the Kremlin. In July of that year, Putin told the oligarchs that he would not interfere with their businesses or renationalize state resources as long as they stayed out of politics—that is, as long as they did not challenge or criticize the president. Although the promise provided some reassurance, it also displayed a warped concept of how markets, businesses, and the state are supposed to function in a democracy.

Limiting the oligarchs' political involvement proved difficult. As more people grew richer, some were inevitably tempted to expand their activities beyond business. Several, including Vladimir Gusinsky and Berezovsky, created media empires of television stations, newspapers, and magazines and used these outlets to attack not only each other, but also Putin, particularly for his policies in Chechnya and his inept response to the 2000 sinking of a nuclear-powered submarine in the Barents Sea. A young, flashy billionaire, Khodorkovsky stoked Putin's ire by bankrolling polls and political parties that pushed his agenda in the Russian Duma. Putin had to do something to rein in the Growing clout of Russia's nouveau riche— the "oligarchs." The Yukos affair is also an attempt by Putin to reassert state control over the economy. The oligarchs made billions off the early to-mid '90s fire sale of Soviet national assets, such as oil. Reversing this trend and strengthen Russia's economic position, in a limited bidder auction, a Russian front company, Baikal Finance Group, bought Yukos' oil production unit, Yuganskneftegas. Later on, is is merged with the Russian state oil company, Rosneft. By merging state-controlled Gazprom with state-owned Rosneft, he has signaled once again that the state will become a strong if not dominant voice in energy policy and economic planning. Moreover, the new entity has become the most likely suitor for Yuganskneftegaz once, as seems likely, Yukos is forced to sell it. If the purchase occurs, Gazprom-Rosneft will then account for 25 percent of the country's energy production.
Putin’s Russian Energy Policy

With the world’s largest deposits of natural gas and third-largest proven reserves of oil, Russia has the potential to make a major contribution to global supplies. In the years before he was appointed Prime Minister and then elected President, Mr. Putin defended a Candidate of Sciences dissertation at the St. Petersburg Mining Institute (in 1997) and subsequently (1999) published an article in the Institute’s journal outlining his views on a natural resource policy for Russia (Post Soviet Affairs 2005:210-225). saying that the thesis deals with three main subjects: the ways natural resources can contribute to the regional economy; strategic planning; and the development of port facilities in St. Petersburg and Leningrad Oblast to facilitate resource exports. His basic message is that Russia’s mineral resources, and particularly its hydrocarbons, will be the key to the nation’s economic development for the foreseeable future. To guarantee the most effective exploitation of Russia’s enormous mineral wealth, the state must regulate and develop the resource sector. This can be best facilitated by fostering large firms that will be capable of competing on equal terms with Western transnational corporations. While the policies should rely on market mechanisms, the interests of the Russian state and people (and Russian corporations) must be protected.

Russia will need to rely on its mineral resources at least during the first half of the 21st century, and possibly longer. Used effectively, the resources can be the basis for Russia’s entry into the world economy. Therefore, the sector is crucial to the entire life of state, supporting industry, providing 50% of GDP and 70% of export revenues, and creating conditions for modernizing Russia’s military-industrial complex. The large number of “company towns,” in the sector gives it a crucial role in preserving social stability.

Putin repeatedly emphasised that restructuring the resource sector to improve its performance is the most important issue for Russian economic growth. Enormous investments will be needed just to maintain current production levels. The gas industry is the best positioned among energy sector branches, but 60% of its pipelines have been operating for more than 20 years which is nearly two-thirds of their projected useful life.
Integrating the processing industry with the extractive industry is one key to improving conditions. The most promising way to accomplish this is by creating large financial industrial groups (FIGs). These companies will allow Russia to move away from reliance on outmoded technologies and they will be able to raise capital on Russian and international markets to locate and develop new deposits. These new companies must take the lead in building up the economy, providing revenue and jobs, and promoting economic integration within Russia, with the CIS and with the world economy. Ensuring rational resource use, guaranteeing environmental protection and providing long-term economic security are beyond the capacity of markets. “In Russia, as a consequence, it is necessary to implement this principle of rational resource use by an organic combination of market mechanisms of self-regulation and support for rational resource use and conservation” (Kommersant 1999).

Putin emphasised the importance of the resource sector for Russia’s economic and geostrategic revival; notes the need for mixed forms of property without specifying the optimal mix; asserts the primacy of state interests; and advocates fostering large, vertically integrated firms that will further those interests. In his address to the Federal Assembly on April 25, 2005, in the context of noting the need for legislation clearly delimiting security requirements so that Russia could attract foreign investment, Mr. Putin called for pre-emptive control “by national, including state capital” over defense industry production and strategic natural resource deposits, as well as infrastructure monopolies (Blazer 2005). In July 2005 Gazprom CEO and Putin deputy Alexei Miller told the Financial Times “that the company wanted to become one of the largest integrated energy companies in the world, spanning oil, gas and electricity.” Dmitry Medvedev, Chairman of Gazprom’s Board of Directors and head of the Kremlin administration, made a similar statement following the acquisition of Sibneft, noting that Gazprom "will not only become the world’s largest natural gas producer, but also one of the world's biggest energy companies" (RIA-Novosti, September 29, 2005). In October 2005 Prime Minister Fradkov extended the industrial policy model to railroad rolling stock, stating that consolidation in the industry should be viewed as preparation for effective global competition rather than as creating a monopoly.
Invoking the need for vertically integrated enterprises capable of competing with Western multinationals is a call for “national champions.” The concept appeals both to those who want to see Russia occupy an important place in the world and to those in a position to benefit financially. Thus the interaction of two related processes may help to explain events since the arrest of Mr. Khodorkovskii. Mr. Putin wants the Russian state to be in a position to exert strategic control over the energy sector with limited recourse to non-market methods. Actors in business and the government bureaucracy want the material benefits. Mr. Putin may not have foreseen the conflicts that would erupt when Rosneft first resisted being merged with Gazprom to create Russia’s national champion and then competed successfully with Gazprom to acquire Yuganskneftegaz, Yukos’ largest production asset. This put Rosneft in a position to play the role of a national champion in the oil industry, but left Gazprom without major oil assets and with less than majority government ownership. Gazprom’s subsequent acquisition of Sibneft solves the ownership issue, gives the firm a role in oil as well as gas, effectively creating a second biggest company in its kind.

The evolution of Gazprom and Rosneft as “national champions” would elicit more enthusiasm if their selection were based on their competitive abilities or represented a reward for their having carried out significant restructuring. Winning non-transparent insider battles over the redistribution of valuable oil assets is hardly an indication of their capacity to operate efficiently. Guaranteeing preeminence in a stable environment is rarely an incentive for any corporation to undertake the difficult work of restructuring. Gazprom was already a bloated and unaccountable behemoth. Adding lucrative oil production facilities, restoring state control (51% of the shares), and going to global markets to raise billions in new capital.

Even if some restrictions are removed, the battles within Russia pitting energy industry executives and their bureaucratic supporters against each other and against foreign players will continue to be fierce. While intense competition and government involvement are hardly unusual in the energy industry, in Russia the final arbiter is an individual rather than the market or another institutional mechanism. Mr. Putin’s article makes it clear that his concept of Russian state interests will remain paramount.
American Congressional reaction to the bid by the Chinese National Offshore Oil Company (CNOOCO) to acquire UNOCAL demonstrates the intense political concern that foreign control of energy assets can provoke. Mr. Putin’s government is more united in its resistance to foreign involvement that might hinder state control in Russia’s energy sector. The blend of market and administrative measures employed in regulating Russia’s energy industry remains subject to adjustment. As war in the Middle East continues to dominate headlines and drive up oil prices, the biggest news in global energy markets this week continues to be Rosneft’s initial public offering. Rosneft is largely a creation of the Kremlin. Until two years ago, the company was an afterthought in the Russian oil market, a state-owned pigmy next to the privately-owned giants Lukoil, Yukos and Sibneft.

While British analysts are calling this the IPO of the decade, Rosneft is restricted foreign investors to buy 2% shares, for 49% foreign ownership. The Russian state will continue to have total control over the company. It was another move to ensure the control of Russian resources will be with Russians so that Russia’s national interest will not be risked. In an increasingly oil hungry world even powerful multinationals like BP will agree to this arrangement without much complains, and invest with billions of dollars. In Russia, state-owned Gazprom Bank and the energy giant’s corporate pension fund is the single largest investor in Rosneft, followed by $750 million from other Russian private investors. In Europe, Dresdner Bank is putting up $300 million, and this is also not much of a surprise, considering Gazprom’s recent hiring of former German Chancellor Gerhard Schroeder.

Besides billion dollar offers from BP, Malaysia’s Petronas Bank, and Petrobras (Brazil’s state oil company), China Daily reported this week that the China National Petroleum Corporation is offering Rosneft $500 million. However, this public proposal is just the tip of the iceberg of Chinese investment in Russian oil projects. Last year, when the Kremlin needed $10 billion cash to buy Yukos for a third of its market value in rigged auction, they turned to Beijing. Now the Chinese are being paid back with Siberian crude locked at 2005 prices - a very favorable deal if oil prices continue to climb.
Nonetheless, the Chinese recognize that the brief season of bartering with a Russian pariah that cannot find any other strategic partners is over. The Kremlin wants to legitimatize its seizures by publicly bringing in foreign capital, thus insulating Rosneft and Gazprom from future lawsuits in U.S. and European courts over the plundering of Yukos. Rosneft is in the unprecedented position (for a Russian company) of getting to pick from among its many foreign suitors. CNPC was the first, but probably not the last, major investor to come away disappointed. Even so, Rosneft is pressing ahead on plans to buy gas stations in China and move beyond selling crude to reap profits directly from consumers in the world's fastest growing automobile market. In the U.S., Lukoil already owns many gas stations in the Northeast, and there has been speculation about Gazprom's interest in liquefied natural gas terminals (LNG) at ports on the Gulf of Mexico.

**Putin's policies towards Caspian region**

'The Turkey Financial news Weekly' commented that, 'Putin's strategy for Caspian oil and gas involves the following goals: encircle Europe by pipelines from the northwest, the southeast and the middle (for instance, the Nord Stream bypasses Belarus and Poland, the South Stream bypasses Ukraine and Turkey); buy most of the gas as cheap as possible from the eastern Caspian states and either use it in Russia or sell it to Europe at a nice profit; use the routes Russia has control over or construct new ones bypassing "troublemakers" and competitors; kill the Nabucco gas pipeline project from Turkey to Austria unless Russia participates; bring Kazakh oil to Western outlets through the routes Russia has control over; discourage competing projects but ensure that Russia is a reliable supplier; convince countries that oil and gas exports with guaranteed volumes and low prices are more attractive than selling uncertain amounts at high prices by bypassing Russia; and promote other means to make Russia's ties with the Caspian states stronger" (Turkey Financial news 2007). This comment reflects the concern of United States and west on Putin's successful Caspian policies.

Since his appointment as Putin's special representative, Victor Kaluzhny has traveled to each of the littoral states. Kaluzhny claims that Moscow backs the sectoral division of the Caspian Sea bed, but not the surface waters. This somewhat confusing
formulation means that Russia has in fact conceded the division of the Caspian into national sectors, but that Putin’s government is determined to block the several US proposals for trans-Caspian pipelines. One idea he has been promoting is a Center for Strategic Economic Planning for the Caspian, to facilitate joint exploitation of the sea’s energy resources. A second is a new proposal for joint development of disputed fields. Both proposals contain echoes of Moscow’s initial stance on the Caspian: agreement by all the littoral states to any deals. By the same token, the bid for joint exploitation of disputed regions would garner Moscow a role in an area in the northern Caspian that is claimed by both Russia and Kazakhstan (The heritage foundation 2005).

According to Russian media reports, Putin stated at Russian Security Council "We must understand that the interest of our partners in other countries—Turkey, Great Britain, and the USA—toward the Caspian Sea is not accidental. This is because we are not active. We must not turn the Caspian Sea into yet another area of confrontation, no way. We just have to understand that nothing will fall into our lap out of the blue, like manna from heaven. This is a matter of competition and we must be competitive” (BBC April-21-2000). The meeting also created a new post of special presidential representative for the Caspian. Viktor Kaluzhny, the former minister of energy, was appointed to the position and charged with enhancing Russia’s presence in the Caspian.

Under external determinants affecting Russian policy in the Caspian region, one would need to consider the overall balance of power, relative influence of policy-implementing bureaucracies such as the foreign, security, and defense ministries, and the importance of top-level policy-coordinating mechanisms like the Security Council. The countries of the Caspian region were beset by severe economic difficulties and the threat of political instability. Russia strove to maintain a hegemonic position in the region: military, political, and economic. Perhaps the major threats faced by Russia were: the spread of political Islam in various forms, and the efforts of Western oil and gas companies to increase their influence in the region – including their proposals for export pipelines that would avoid transiting Russia. To cope with these conditions, Russia notably utilised its military in numerous instances to advance its interests in the region. The Commonwealth of Independent States (CIS).
Under Putin’s foreign minister, Igor Ivanov, Russian policy was explicitly “Multipolar” and “multivector.” This meant that Russia sought to offset the United State’s influence by seeking to cultivate relations with such countries as Iran, China, and India. Russia attempted to offset the “drift” of Azerbaijan and Georgia toward NATO, as well as to thwart substantial political inroads from Turkey seeking ties with “Turkic” peoples in the area. On security grounds Russia established and continued to maintain strong ties with Armenia – causing friction with Azerbaijan, which chafed over Armenia’s continued occupation of 20% of Azerbaijan’s territory as a result of the fighting over Nagorno-Karabakh (Karagiannis 2002).

In the beginning of his term as president Putin perceived the Caspian region primarily through the prism of Chechnya – which led to a policy of threats and intimidation to bring about a tightening of the borders of Chechnya – but which policy was toned down after March 2000. At the same time, Russia put the countries of the CIS on notice that it would no longer automatically permit citizens of member-states to enter Russia without visas – a policy that will most affect Georgia and possibly Azerbaijan. In the areas of energy and pipeline policies, the Putin policy attempted to counter the large Western investments in oil and gas in Caspian region countries beginning in the 1990s. Furthermore, Russia attempted to respond to the U.S.-backed plan for the Baku-Ceyhan Pipeline for a large-diameter oil pipeline running from Baku, Azerbaijan, through Georgia to Ceyhan, Turkey, on the Mediterranean Sea.

Under both presidential administrations a chief focus in the Caspian region was Kazakstan, which had large oil and gas fields, and with which Russia shared a long border and other key interdependencies. Russia’s approach to Kazakstan had two main components. First, Russia pushed for the development of a large-diameter pipeline running from Kazakstan’s large Tengiz field to Russia’s Black Sea port of Novorossisk. Currently this project is under construction. Second, Russia sought to come to an agreement with Kazakstan on dividing the mineral wealth below the Caspian seabed.
Compared to Kazakhstan, Russia had less success in forging agreements with Azerbaijan. To Russia's disappointment, Azerbaijan during the Yeltsin administration concluded an agreement with Western oil companies on the construction of a small-diameter pipeline running west from Baku to Supsa, Georgia, on the Black Sea. This "western" pipeline is now a pipeline linking Baku with Novorossisk, Russia. However, a disadvantage of the northern route was that, until recently, it passed through Chechnya, where it was subjected to frequent disruption and oil losses. Another difficulty between Russia and Azerbaijan was that Azerbaijan also supported the construction of a large-diameter pipeline westward through Georgia to Ceyhan, Turkey. Russia was unhappy about Azerbaijan's pipeline policies.

With the waning of its Chechnya campaign after March 2000, the Putin administration began actively pursuing energy and pipeline deals in the Caspian region. The former minister of oil and gas, Viktor Kalyuzhny, became President Putin's special envoy for Caspian Affairs with the rank of deputy foreign minister. As before, Russia paid special attention to Kazakhstan, which meanwhile had discovered a large oil field (the Kashagan field) in its offshore sector of the Caspian Sea. At a summit meeting, Presidents Vladimir Putin and Nursultan Nazarbayev reaffirmed the principles in the agreement between Russia and Kazakhstan on 6 July 1998, and called for a stepped up search for a compromise on the seabed's status. Other aspects of their agreements included Moscow's promise to increase the capacity and quotas for Kazakhstan to export oil to the Baltic States via the Atyrau-Samara oil pipeline. An area of disagreement, however, was Kazakhstan's refusal to give up plans for transporting oil southward to link up with the planned Baku-Ceyhan pipeline.

Subsequently Putin's special envoy, Viktor Kalyuzhny, visited Azerbaijan, Turkmenistan, and Iran. In two major interviews, Kalyuzhny revealed that he had run into major rebuffs from Turkmenistan, which had particular quarrels with Azerbaijan over ownership of certain fields beneath the seabed, and Iran, which refused to give up the principle of equality in sharing the resources of the Caspian – a position like Russia's before July 1998. It was interesting to learn that Russia had come up with at least one innovation: a proposal for two countries to share disputed fields lying on their territorial boundary on a 50-50 basis. Specifically, Russia proposed applying this principle to one of the fields disputed by Turkmenistan and Azerbaijan.
On another issue with Azerbaijan, Russia had a success that may turn out to be a failure. When the Baku-Novorossisk pipeline was forced to shut down during Russia’s Chechnya intervention, the Putin Administration assured Azerbaijan that it would construct a pipeline segment that would by-pass Chechnya. Russia’s Transneft surprised many by finishing the bypass construction before deadline and below cost. However, it appeared that Azerbaijan had no oil to send by the northern route, having enough capacity on the western route to Supsa. Bickering and disagreements ensued over the breaking of agreements and the allegedly high price Russia was planning to charge for transport of crude to Novorossisk. Additional complications had to do with the fact that characteristics of Baku’s crude made it especially difficult to transport by pipeline. It appeared that Russia would have difficulty recovering the cost of Chechnya bypass construction.

The conclusion that seems warranted concerning the energy and pipeline sector is that the Putin administration staked out no new directions during its first ten months. Perhaps a greater priority was now placed on Caspian progress, but Russia had as yet little to show for it. Russia under Putin made some innovations in its proposals concerning dividing the Caspian, but so had Russia under Yeltsin. Putin appeared to be sticking with the basic1988 Yeltsin position: to divide the resources under the Caspian seabed, but to divide nothing on the surface of the seabed or above it.

These tangled situations did not change much until early 2001. In January of that year Azerbaijan moved toward the Russian position. During his visit to Baku, Russia’s president Putin and his counterpart Aliyev came to an understanding as to the need of dividing the seabed while holding the sea surface in joint control. “They’ve reached the Bottom: Vladimir Putin Agrees to Complete Division of the Caspian (Sokolova 2001). This eventually led to a formal agreement between Russia and Azerbaijan in September 2002. All of these agreements brought about a partial resolution of the long-standing dispute over the legal status of the Caspian Sea.

The presidents of the five Caspian countries held a summit meeting-- April 23-24, 2002 in Ashgabat. Long in the making and elaborately prepared by working groups, the
summit nevertheless failed to bring the parties any closer to a consensus on how to divide the Caspian Sea. The failure had generally been expected, leading many commentators to question the wisdom of holding the event in the first place.

President Vladimir Putin has announced that Russia will continue beefing up its naval forces in the Caspian sea and will soon hold large-scale military exercises there (James town foundation 2002) Both before and after the summit, the Russian president repeatedly expressed satisfaction with the progress of bilateral negotiations with Russia's Caspian neighbors, Azerbaijan and Kazakhstan, on sectoral delimitation in their respective parts of the sea. Putin considers the mere holding of the summit a Russian success, hoping to build on the precedent and institutionalize Putin's decision is clearly unrelated with the summit's failure to arrive at a five-party consensus. A "Caspian Quintet" forum

Russian naval capabilities in the Caspian Sea have grown apace since Putin became president. In January 2001, Russia's Caspian fleet staged a massive show of strength in front of Baku, as a backdrop to Putin's official visit there. The Russian squadron entered Azerbaijan's coastal waters and lay anchor, before bothering to request Azerbaijan's permission. Azerbaijan, with a high political stake in improving its relations with Moscow, did not protest. Returning from the Ashgabat summit, Putin visited Astrakhan and the naval base nearby. There he issued orders for a combined-arms exercise to be held by Russia's Caspian Flotilla, border guard cutters, units of naval infantry and land-based combat aviation, in the "northern and central parts of the Caspian Sea," in combat-like conditions. In remarks shown live on Russian television, Putin declared, turning to the naval commander in chief, Admiral Vladimir Kuroyedov: "We must strengthen our [military] presence as an essential factor in promoting our political and economic interests in the Caspian Sea. Our flotilla constitutes a unique instrument in promoting the interests that I just mentioned." In another televised sound bite, Putin termed that naval force "an active instrument of Russia's policy in the region" (The Heritage Foundation 2005).
Russia's policy proved to be highly influenced by a security issue that was technically domestic in nature—Russia's second intervention in Chechnya (beginning in August 1999), which was designed to bring that region under effective Russian rule. Russia's war in Chechnya seriously affected Russia's policy toward the Caspian region both during the final stage of the Yeltsin administration and the Putin administration. Accordingly, Russian policy made a priority cutting off the flow of outside arms and persons to Chechnya. In early 2000, it was characteristic that the Commonwealth of Independent States approved Russia's proposal for the establishment of a counter-terrorism center. At the same time, in bilateral contexts, Russia threatened and applied pressures to Azerbaijan and Georgia, in particular, to close their borders to movements of goods and persons capable of aiding the opposition in Chechnya. Only with the diminution of large-scale Russian military operations in Chechnya beginning in March 2000 did Russia take a more balanced approach toward the Caspian region. Consequently, by the end of October 2000 the balance of threats and opportunities faced by Russia in the Caspian region basically resembled that prevailing during most of the Yeltsin years.

The rigorous Russian initiatives coincided with the publication of the new Russian foreign policy concept, which contains clear references to the Caspian. Serious emphasis will be made on the development of economic cooperation, including the creation of a free trade zone and implementation of programs of joint rational use of natural resources. Specifically, Russia will work for the elaboration of such a status of the Caspian Sea as would enable the littoral states to launch mutually advantageous cooperation in using the region's resources on a fair basis and taking into account the legitimate interests of each other (www.mid.ru.com). Equally important, the concept gives voice to the idea that the reassertion of Russian influence in the Caspian is both a commercial and diplomatic endeavor. Viewing the Greater Mediterranean as a hub of such regions as the Middle East, the Black Sea region, the Caucasus, and the Caspian Sea basin, Russia intends to steer a purposeful course for turning it into a zone of peace, stability, and good neighborliness, something that will help advance Russian economic interests, including in the matter of the choice of routes for important energy flows (Ibid).
Earlier, Putin stated at that Security Council meeting in April: "The key issue in this sense is the balance of interests of the state and mineral resource companies. We must realize the efforts of the state alone will not be enough for implanting the Russian companies there" (Prime-Tass News Wire, April 21, 2000). To that end and clearly encouraged by the Kremlin, the Russian oil companies, LUKoil and Yukos teamed up with the natural gas company Gazprom to form the Caspian Oil Company. In a press conference to announce the new company, LUKoil's first vice president, Ravil Maganov, stated that the new company would "help Russia strengthen its stand in the region" (Energy Intelligence Group 2000).

Thus far these new initiatives have not been accepted by the other littoral states. All rejected the idea of the Economic Center and have been silent on the proposal for joint exploitation of disputed sites. By the same token, the other littoral states have been receptive to the fact of the diplomatic activity. They remain wary, however, of Russia's other policy implements—such as the its policy in the Nagorno-Karabagh conflict, charges against Azerbaijan and Georgia that they are harboring Chechen fighters, and the slow pace of negotiations over the final disposition of Russian bases and weaponry in Georgia.

One of Putin's most successful Caspian diplomacy was reaching a deal with Kazakhstan. In January 2004 Putin visited Kazakhstan and reached and sealed a long-term commitment from Kazakhstan to use Russian pipelines for exporting its hydrocarbons to Europe. Kazakhstan, which produced 45 million tons of oil in 2003, pumped 32 million tons for export through the pipelines of the Caspian Pipeline Consortium running from northern Caspian across Russia to the Black Sea port of Novorossiisk. The Kazakh president said the piping of Kazakh oil via the CPC line could be increased to 48 million tons (The Hind January 2004). CPC pipeline is the main rival of the U.S.-supported Baku-Tbilisi-Ceyhan pipeline being built from Azerbaijan across Georgia to Turkey. Azerbaijan's oil reserves, however, are insufficient to fill the BTC pipe when it becomes operational in 2005, and the U.S. has been lobbying Kazakhstan, which plans to triple its oil output, to channel its main oil exports through BTC. The agreements reached by Mr. Putin in Astana dealt a blow to Washington's hopes. Russia
and Kazakhstan agreed that all minerals lying below the seabed should belong to one of the riparian states — with the exact territorial boundaries to be subsequently determined. At the same time, Russia and Kazakhstan considered that resources lying on or above the seabed — e.g., pipelines and fish. On the sidelines of Mr. Putin’s visit the Russian oil major Lukoil signed an accord for the investment of $3 billion into joint development of Kazakhstan’s oil and gas fields in northern Caspian (Rahyudin 2004).

Since it began promoting the Baku-Ceyhan pipeline, the US has been telling Russia that it is not trying to exclude Moscow from the Caspian region. Despite these US avowals, it is clear that officials in Moscow remain unconvinced. As noted above, the almost simultaneity of the Baku-Ceyhan agreement with NATO expansion and Kosovo only exacerbated the worst fears of Russian officials. And this was before Putin came to power determined to reassert Russia’s great power status. Moscow sees the Caspian Pipeline Consortium (CPC) as its stake in the Caspian game. The community of interests between Moscow and Tehran is strengthened by their mutual exclusion from the Caspian by the Baku-Ceyhan pipeline. Both adopted similar stances on the status of the Caspian Sea.

Russia’s energy policy Under Yeltsin Russian policy was notoriously poorly coordinated and administered. Even policy-coordinating machinery such as the Security Council appeared dysfunctional. Russian policy seemed to be highly dependent upon whim or upon factional infighting among persons with direct access to the group of persons surrounding Yeltsin known as the “family.” During the period of 2000 to 2004 Putin laid foundation for a strong Russian policy to the region. Putin achieved decisive diplomatic victories through reaching separate agreements with all littoral states, a proactive approach to beleaguered Iran. To sum up, as Vladimir Radyuhin noted Putin has shown who holds the cards in the global energy game.