CHAPTER—4

ENERGY FACTOR IN
RUSSIAN FOREIGN POLICY
CHAPTER 4
ENERGY FACTOR IN RUSSIAN FOREIGN POLICY

In August 1999 when Yeltsin appointed Putin as Prime minister the industrial output of Russia was already on the rise. Putin was extremely lucky in taking over the reins of power just at a time when the country’s economy was upbeat following the recovery in South East Asia. In fact, the upturn in economy had started in spring 1998 (See table 4.1) when E. Primakov was the Prime Minster, yet the improvement in economy had more to do with the rise in commodity prices, particularly oil than the concrete actions or policies of the Prime Minister.

Table: 4.1: Monthly Changes to Industrial Production

<table>
<thead>
<tr>
<th>Month</th>
<th>As % of corresponding period in previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1998</td>
<td>102.9%</td>
</tr>
<tr>
<td>February 1998</td>
<td>101.2%</td>
</tr>
<tr>
<td>March 1998</td>
<td>102.5%</td>
</tr>
<tr>
<td>April 1998</td>
<td>101.1%</td>
</tr>
<tr>
<td>May 1998</td>
<td>97.2%</td>
</tr>
<tr>
<td>June 1998</td>
<td>97.1%</td>
</tr>
<tr>
<td>July 1998</td>
<td>91.0%</td>
</tr>
<tr>
<td>August 1998</td>
<td>88.4%</td>
</tr>
<tr>
<td>September 1998</td>
<td>85.0%</td>
</tr>
<tr>
<td>October 1998</td>
<td>88.3%</td>
</tr>
<tr>
<td>November 1998</td>
<td>90.6%</td>
</tr>
<tr>
<td>December 1998</td>
<td>93.3%</td>
</tr>
<tr>
<td>January 1999</td>
<td>97.6%</td>
</tr>
<tr>
<td>February 1999</td>
<td>97.0%</td>
</tr>
<tr>
<td>March 1999</td>
<td>100.4%</td>
</tr>
<tr>
<td>April 1999</td>
<td>100.6%</td>
</tr>
<tr>
<td>May 1999</td>
<td>106.0%</td>
</tr>
<tr>
<td>June 1999</td>
<td>109.0%</td>
</tr>
<tr>
<td>July 1999</td>
<td>112.8%</td>
</tr>
</tbody>
</table>

Source: Basic and Social Indicators (for various years), Rosstat: Social and Economic situation in Russia.
As Marshall Goldman rightly observes, “Russia’s rebounding economy would make whoever was in office at the time look like an economic genius.” (Goldman 2008: 96). In a way, Putin did make some contribution to the further growth of economy a flat 13% income tax on the advice of his friends from St. Petersburg, German Gref and Alexei Kudrin, whom he inducted into his Cabinet as ministers. Before the introduction of flat 13% income tax, the maximum tax rate was 30% which deterred many Russian entrepreneurs from paying taxes.

**The Shaping of Putin’s Oil Diplomacy:**

When Putin came to power as an elected President in 2000, Russia’s per capita income was even lower than that of Portugal. Putin set the goal of 7% rise in GDP per year in order to double it in 10 years. Russia did achieve this growth except in 2001 and 2002, but this rise in GDP was due to high world oil prices than the revitalised Russian manufacturing industry. Despite allocation of 27% in 2005 and 22% in 2006 to Russia’s military budget, it was a far cry for Russia to regain its status as a military superpower. Russia’s loss of political influence was to be regained through its growth as a ‘soft power’ largely by the necessary strength of its energy sector. The foreign policy goals were sought to be achieved by a skilful use of energy resources and diplomacy based on Russia’s growing status as a great energy power.

The road map for the emergence of Russia as a great power, outlined by Putin, has been discussed at length in the previous chapter. In fact, it can be traced back to 1997 when Putin submitted his Ph.D. dissertation at the St. Petersburg Mining Institute and his subsequently published article in 1999 in a publication of the same institute. These ideas for Russia’s recovery through reassertion of state control over the country’s rich natural resources and raw materials were
primarily motivated by the only possibility of Russia regaining its lost economic and political influence by becoming an energy great power.

The national economy must pursue the goal of creating most effective and competitive companies in both the domestic and world markets. This goal was not going to be served in Putin's view through the oligarch-controlled corporations functioning with the sole objective of making huge profits. In their place, Putin proposed that giant state controlled oil and gas corporations must be created to serve the national interests. To achieve this aim, it was necessary to take over some of the assets doled out by Yeltsin to private companies and integrate them vertically into large industrial corporations to enable them to compete successfully with such multinationals as the Shell and the Exxon-Mobil. Thus, was born his idea of creating 'National Champions'. This idea, according to American scholar Clifford Gaddy of the Brookings Institution was adopted by Putin from the work of Pittsburgh University analysts, William King and David Cleland. (Goldman 2008: 98-99). According to Gaddy 16 pages of this work were included verbatim in Putin's dissertation.

Marshall Goldman traces the origin of such ideas to Charles De Gaulle of France. These national champions preferred state interests over profits. The state might keep the domestic energy prices low as a subsidy for the public and suspend deliveries to countries which act in opposition to Russia's foreign policy interests. The national champions were generally to have more than 50% state ownership. However, this policy of creating 'national champions' did not exclude predominantly private companies from serving as 'national champions.' If a private company were to choose to defy state guidance, the state was to use its coercive powers to compel it to heed the state directives. Thus, Putin has successfully achieved by sending state tax auditors or officials
from the environmental agencies to book the defiant private companies. The erring private oil and gas companies could also be coerced to fall in line with the state's instructions through denial of state controlled pipelines to reach both internal and external markets. When Putin took over as President in 2000 the total state share of oil production was 16%. By late 2007, it had risen to about 50% (Financial Times 2007:18). Soon after his election as President in March 2000, in June 2000, Putin dropped Viktor Chernomyrdin from his position of Gazprom's Chairman of board of directors. Putin started moving against disobedient oligarchs. In June 2000, Valdimir Gusinsky was removed as head of Media-Most. In November 2000, Borris Berezovsky was threatened with jail. He was thus forced to give away Sibneft and take refuge in England. In May 2001, Rem Vyakhirev was removed as CEO of Gazprom. Finally, in October 2003, Mikhail Khodorkovsky was jailed for tax evasion and his company, Yukos, was taken over by the state. By mid 2005, Putin seized 50% + 1 share of the Gazprom stock.

Controlling the Oligarchs:

On July 28, 2000, Putin addressed 21 new Russian oligarchs in Kremlin meeting. Gusinsky and Berezovsky were not invited to this meeting. The oligarchs were told that the Russian President would not touch them if they kept out of politics. For their concentration on business, they were assured that the state would not throw their quick accumulation of wealth. Berezovsky and Khodorkovsky did not heed the warnings given by Putin. When Russian nuclear submarine, Kursk, sank in August 2000, Berezovsky's ORT TV Channel joined hands with Gusinsky's NTV in launching a tirade against the government over the tragedy of the Kursk. Both ORT and NTV projected shots of Putin enjoying his vacation on The Black Sea coast along with criticism by
family’s of the dead sailors for Putin’s delayed reaction. Gusinsky’s holding company Media-Most was taken over by the state for his failure to repay a loan. Gusinsky fled into exile in Israel. Berezovsky in his typical arrogance assumed that Putin would not move against him because of his backing for the post of Prime Minister. Berezovsky had hosted Putin and his family in his villa on the French Riviera. Also because of his closeness to Yeltsin’s family Berezovsky had appointed one of Yeltsin’s son-in-law Valery Okulov as the chief of Aeroflot. In one of the actions under the loan for share schemes Berezovsky was helped by Yeltsin administration to acquire Sibneft for a throw away price. Berezovsky had financed Yeltsin’s 1996 Presidential campaign. Learning about Putin’s order for his arrest Berezovsky took asylum in England, surrendering his control of ORT and Sibneft to his business partner Roman Abramovich who was happy to place them at Putin’s disposal. The state owned Gazprom swallowed Gusinsky’s Media-Most and Berezovsky’s Sibneft. Putin also moved against Gazprom’s subsidiary, Itera, which had its headquarters in Florida in the United States. The trustees of ITERA who traded in Turkmen Gas and commodities were mostly relatives and mistresses of senior Gazprom executives. (Goldman 2008:104). Putin was firmly in control of the oil and gas sector of the Energy Industry of Russia as also of Central banking. This was made possible through ouster of Chernomyrdin in June 2000, and Rem Vyakhirev in May 2001 from the Gazprom and that of Viktor Gerashchenko as the chairman of the Russian Central Bank. Khodorkovsky was jailed in October 2003 followed by expropriation of his Yukos. Putin showed his guts against both-the successors of Soviet Nomenklatura like Chernomyrdin, Vyakhirev and Gerashchenko and newly rich post-Soviet oligarchs like Berezovsky, Gusinsky and Khodorkovsky.
Perhaps the biggest of Khodorkovsky’s many sins was his attempt to determine the course of Russian foreign policy. He sent oil tankers to Houston as an indication of Yukos’ desire to turn into a major exporter of Russian oil to the United States. Khodorkovsky also gave a call for constructing an oil pipeline to Murmansk on the Barents Sea. This amounted to a direct confrontation with the state owned Transneft which had the monopoly ownership and control of the entire network of Russian oil pipelines. Khodorkovsky not only championed the cause of oil pipeline to Murmansk in north but also a pipeline through Siberia to China. In May 2003, Khodorkovsky signed deal with China to deliver 20 million tonnes of oil annually by 2005 and 30 million tonnes of oil by 2010. Besides his usurpation of the right of the Russian state in the sphere of foreign policy by independently concluding agreements with China for oil supplies, Khodorkovsky was known to be moving in the direction of selling of sizeable Yukos stocks to Chevron and Exxon-Mobil. (Pappalardo 2005).

Yukos had signed an agreement with Exxon for sale of stocks three weeks before Putin ordered arrest of Khodorkovsky in October 2003.

In his interview published by Wall Street Journal Putin expressed his irritation that neither Exxon-Mobil nor Yukos had consulted with him in advance while negotiating such a large transaction behind his back (Wall Street Journal April 12, 2004).

In Putin’s view Khodorkovsky had no right to turn ownership and control of Russia’s most valuable resource to a foreign company. The confrontation between Khodorkovsky and Putin came to the top when Khodorkovsky accused Sergei Bogdanchikov, head of the Rosneft-a state-dominated company. Khodorkovsky accused Bogdanchikov of overpaying 622.6 million dollars for Northern Oil, a company controlled by Andrei Vavilov, a former Deputy
Finance Minister. The implication was that kickbacks were involved in the deal.

Marshall Goldman writes, "Having become Russia's richest man, Khodorkovsky apparently believed that he had no longer need to kowtow to political godfathers-that is pay for Krisha or 'roof', as Russian businessmen had since the days of the Czar" (Goldman 2008:113). Khodorkovsky was also thinking of creating his own political power base. Through his executives, he was extending support to the Pro-Western Yabloko party with his financial help; he had gained the support of about 100 members of the Duma who would back whatever he desires. Government efforts to restrain taxes and environmental restraints on the oil company were sabotaged in Duma by Khodorkovsky. Even members of the Communist Party were induced by financial aids to support the Yukos cause. It was rumoured that Khodorkovsky might be contesting the presidential elections in 2008 when Putin's term came to an end. Khodorkovsky had started behaving as if the Yukos, not the government officials were managing the country.

The move against Yukos began with the June 2003 arrest of Alexei Pichugin, security chief of the Yukos on murder and attempted murder charges. It was followed by the arrest of Platon Lebedev in July 2003. Lebedev was charged with failure to make the promised investment in a fertiliser company. Menatep had taken over from the government. These arrests did not seem to perturb Khodorkovsky who continued his transatlantic tours meeting Vice-President Richard Cheney to discuss purchase of Yukos stock by Exxon-Mobile and calling upon Bill Gates, Warren Buffet and the New York Mayor-Bloomberg. He called to have stayed back justifiably fearing arrest on his return to Russia. But he made the mistake in believing that he was powerful enough to set
himself free with the help of his influential friends and lawyers. On 15 October 2003 he was arrested from his private jet in Novorossiysk and charged with tax evasion, fraud, forgery, embezzlement and extortion. Found guilty he was sentenced for 8 years initially and sent to prison in Siberia.

Compared with western judicial standards Khodorkovsky’s trial was rather harsh. The case against the senior executives of the Yukos had some merit but the courts treatment of middle level employees was somewhat harsh as most of them were denied bail. In the Enron case in Texas the accused remained free on bail until they were found guilty. In Russia even the trial had some harsh aspect. The company Yukos itself was not treated less harshly. Of course the Yukos owed money as tax arrears but the government did not seem to be bothered by the fact that in some years its tax arrears exceeded the total revenue raised. By the end of the trial the Yukos was faced with non-payment of 33 billion dollars of taxes. In December 2004 its most priced asset Yugansneftegaz was sold in a manipulated auction figure 9.35 billion dollars to an unknown entity named the Baikal Finance Group which was nothing but a front for Rosneft. When in December 2004 some American executives working for the Yukos approached a Texas Federal Bankruptcy Court for chapter 11 bankruptcy protection, the Gazprom feared that its property in Europe or in America might be seized. The Gazprom and Rosneft therefore created front companies like NeftAktiv for Rosneft and Unitex for Gazprom on the pattern of the Baikal Finance Group. Thus, through these front organizations the Yukos assets were stripped.
Table 4.2: Yukos Senior Executives, in-house or outside counsel and accountants; left the country or arrested, in prison or under house arrest wanted for questioning.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexie Pichugin</td>
<td>Yukos head of security</td>
<td>Arrested June 19, 2003, 2005 of murder and attempted murder and sentenced to 20 years jail</td>
</tr>
<tr>
<td>Dmitry Velichko</td>
<td>President of ZAO Rosinkor</td>
<td>Arrested January 2005.</td>
</tr>
<tr>
<td>Oleg Vitka</td>
<td>Head of Yukos joint venture with Hungary’s MOL</td>
<td>Arrested March 10, 2005.</td>
</tr>
<tr>
<td>Yelena Guryanova</td>
<td>Wife of Pavel Ivelev, deputy managing partner of Yuko’s law firm. Living outside Russia</td>
<td></td>
</tr>
<tr>
<td>Andrey Krainov</td>
<td>Director, AOZT Volna</td>
<td></td>
</tr>
<tr>
<td>Steven Theede</td>
<td>CEO of Yukos, wanted for questioning. In London</td>
<td></td>
</tr>
<tr>
<td>Bruce Misamore</td>
<td>CFO of Yukos, wanted for questioning. In London</td>
<td></td>
</tr>
<tr>
<td>Mikhail Brudno</td>
<td>Menatep. Wanted by Interpol. In Israel.</td>
<td></td>
</tr>
<tr>
<td>Vladimir Dubov</td>
<td>Menatep. Wanted by Interpol. In Israel.</td>
<td></td>
</tr>
<tr>
<td>Leonid Nevzlin</td>
<td>Menatep. Wanted by Interpol. In Israel.</td>
<td></td>
</tr>
<tr>
<td>Dmitri Gololobov</td>
<td>Former head of Yukos legal affairs in London. Svetlana Bakhmina’s boss</td>
<td></td>
</tr>
<tr>
<td>Vasily Shaknovsky</td>
<td></td>
<td>Paid back taxes. Received one-year sentence. Sentence suspended</td>
</tr>
<tr>
<td>Elena Agranovskai</td>
<td>Outside counsel</td>
<td>Arrested on Dec. 8, 2004, on charges of money laundering and evasion</td>
</tr>
<tr>
<td>Igor Malakhovsky</td>
<td>Director of Ratibor</td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Title/Position</td>
<td>Charge/Action</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------------------------------------</td>
<td>-------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Antonio Valdes Garcia</td>
<td>Director, Fargoil, Yukos Trading Facility</td>
<td>Arrested June 10, 2005, on charges of money laundering.</td>
</tr>
<tr>
<td>Mikhail Yelfimov</td>
<td>Acting president for refining and marketing, Yukos</td>
<td>Ordered to be arrested, Feb. 28, 2003-exiled in London.</td>
</tr>
<tr>
<td>Elena Marochkina</td>
<td>Chief accountant Yukos subsidiary</td>
<td>Accused of tax evasion.</td>
</tr>
<tr>
<td>Sergei Shimkevich</td>
<td>Director General Tomskneft</td>
<td>Accused of embezzlement.</td>
</tr>
<tr>
<td>Pavel Anisimov</td>
<td>Executive manager Samaraneftegaz</td>
<td>Accused of tax evasion.</td>
</tr>
<tr>
<td>Ramil Burganov</td>
<td>Eastern Oil company</td>
<td>Accused of theft of more than 1 billion roubles; granted political asylum in Britain.</td>
</tr>
<tr>
<td>Dmitri Maruev</td>
<td>Yukos chief accountant</td>
<td>Accused of $2.6 billion fraud. In exile in London.</td>
</tr>
<tr>
<td>Natalya Chernisheva</td>
<td>Rosprom</td>
<td>Accused of fraud. In exile in London.</td>
</tr>
<tr>
<td>Tagirzian Gilmanov</td>
<td>Duma deputy. Former managing director Yuganskneftegaz</td>
<td>Tax evasion. Sentenced to three years in jail.</td>
</tr>
<tr>
<td>Vasily Aleksanyan</td>
<td>Chief of Yukos legal department</td>
<td>In jail, accused of embezzlement, tax evasion, and money laundering. Suffering from lymphoma.</td>
</tr>
<tr>
<td>Aleksandr Temerko</td>
<td>Board member, Yukos</td>
<td>Accused of fraud. International arrest warrant issued for his arrest.</td>
</tr>
<tr>
<td>Mikhail Trushin</td>
<td>Yukos 1st VP</td>
<td>Accused of theft.</td>
</tr>
<tr>
<td>Ludmila Siyusareva</td>
<td>General accountant Yuganskneftegaz</td>
<td>Tax evasion. Arrest warrant issued.</td>
</tr>
<tr>
<td>Igor Babenko</td>
<td>Manager Menatep</td>
<td>Charged with theft of $12 million. Asylum in Lithuania.</td>
</tr>
</tbody>
</table>


In 2007 two hundred properties including 20% stake in GazpromNeft (formerly Sibneft) that Yukos owned as well as its Tomskneft and Samaraneftegaz subsidiaries were also auctioned to recover the back tax arrears. Because of rise in petroleum prices after 2004, the remaining Yukos properties were in the beginning, evaluated at a higher price of 22 billion dollars which were raised to 26 billion dollars subsequently. At this level, Yukos would have settled its past tax arrears and still retain some assets for itself. There was no prospect of its becoming really bankrupt. This was,
however, prevented by new calculation of Yukos’ total tax liabilities now estimated at 26.6 billion dollars.

To plug the loophole in the earlier loan for share auctions of the mid 1990s, this time Rosneft was not the only auctioneer to be the winner. In March 2007 auction, besides the Rosneft the TNK-BP also entered the auction as second bidder. The TNK-BP entered the auction to win Putin’s favour in the hope that the BPs holding in Kovykta will not be touched either by the state or the Gazprom. Had the TNK-BP been a serious bidder, they would not have let such a bargain pass. The auction sale failed to yield sufficient funds to pay off the tax arrears of the Yukos.

In May 2007, Yukos headquarters were put up for sale. A little known company called Prana got it for dollar four billion bid. Through all these collections the state received more money than the Yukos audit as tax arrears. Nevertheless, Yukos was still declared a bankrupt company. To prevent western banks from lending money to Rosneft and western companies from bidding, the Rosneft used the RN-Razvitiye on the model of Baikal Finance Group to make the bid and win the auction. The RN-Razvitiye has surfaced only in January 2007, a few months before the auction. It started with just a capital of dollar 385 only and yet managed surprisingly to borrow 9 billion dollars to enter the auction. The financial auditors of the Yukos, PWC were declared by a Russian court to have wrongly estimated Yukos’ profit and was ordered to pay dollar 15 million of taxes to compensate for the loss of revenue by their wrong auditing. The PWC disowned 10 years of its own auditing. This knocked the bottom out of the Yukos defence of full payment of taxes by it (Financial Times January29 2008: 18).
Accusations of "democracy deficit" and damage to Russia's reputation caused by a general feeling in the international community that the country had scant respect for the Rule of Law did not bother Putin. He had succeeded in his objectives of removing Khodorkovsky from the economic and political scene (Khodorkovsky, by his actions of signing an agreement to deliver oil to China and support for the Northern pipeline to Murmansk to enable Russia to become a source of energy supplies to the United States had annoyed Putin who viewed these actions as an unnecessary meddling of private business into the Russian states function of conducting its foreign policy) and strengthening state controlled companies like Rosneft through effective re-nationalisation. The transfer of Rosneft assets prevented Yukos from transferring the nation's oil reserves to the American company Exxon-Mobil. Putin's action against the Yukos added an additional 11% of Russia's oil production in the hands of the state. Putin's next move was against the Sibneft. Unlike the long drawn out onslaught against the Yukos and the prolonged legal battle with its owner Khodorkovsky, the takeover of the Sibneft was an easy victory. Its chief owner, Boris Berezovsky, fled to London fearing arrest, transferring his assets to his junior partner Roman Abramovich, a former sportsman turned businessman. Abramovich readily transferred most of his new possessions to the state. Berezovsky had transferred to Abramovich the control of his Aluminium concern Rusal, the TV network ORT and the oil company Sibneft. Abramovich agreed to undo the merger earlier negotiated in 2003 between Yukos and Sibneft. Khodorkovsky had paid dollar 3 billion for 26% stock of the Sibneft. Abramovich cancelled the merger but pocketed dollar 3 billion.

For a while, Abramovich toyed with the idea of selling half shares of Sibneft to some foreign company. He was negotiating with the Chevron Texaco, Shell and Total. But the claims of Russian tax authorities amounting dollar 1.4 billion tax arrears brought Abramovich to senses. He finally agreed to sell his
72% stake in Sibneft to Gazprom for a price of dollar 13 billion (Financial times October 11 2005). Under the name of GazpromNeft, the state dominated Gazprom obtained a major stake in oil sector with the transfer of Sibneft to state ownership the Russian state gained control of 30% Russia’s total oil production (Financial times October 11 2005).

Abramovich had nothing to lose. By selling Sibneft, he became Russia’s richest man with a worth of 18 billion dollars. Abramovich is not only Russia’s richest man. Though a Governor of Russia’s obscure Russian province, he has made London his permanent home and has also become Britain’s richest man. He is the proud owner of the world’s largest Yacht and the Chelsea football team. The former business partner of Russian oligarch Boris Berezovsky began his career like his Indian business tycoon Late Dhirubhai Ambani at an oil filling outlet. According to information published in Russian magazine Nash Sovremennik, Abramovich is a personal friend of Vladimir Putin whom he is rumoured to have gifted a luxury yacht.

After the transfer of ownership of what used to be Yukos and Sibneft, the state lacked a majority share only in three remaining large oil companies in Russia, which are Lukoil and TNK/BP and Surgutneftegaz. Surgutneftegaz headed by Vladimir Bogdanov has been conducting its affairs as it was under state control. It has never faced any charge of environmental abuse, tax evasion or law violations. The Surgutneftegaz ran into a controversy over non-payment of dividends to minority shareholders including dollar 3.7 million that owed to Harvard. Its workers also participated in May Day protest in 2006 demanding higher wages.

The privately owned LUKoil Company with Vagit Alekperov as its CEO was not as swift as Surgutneftegaz in adapting to state subservience. Though overtly
challenging the state policies rarely, this company has generally worked in close cooperation with the Russian state. In September 2003, at Alekperov’s invitation, Putin inaugurated a LUKoil filling station in New York. LUKoil is operating in the US market after acquiring Getty Petroleum Marketing Company in 2000. All the oil outlets owned by the Getty Petroleum Marketing Company were to be converted in LUKoil outlets by 2008. Earlier these stations were supplied with oil from Middle East refined in the United States. LUKoil which functions as a national champion has also bought from Conoco Phillips 376 filling stations located in Belgium, the Czech Republic, Slovakia, Poland, Hungary and Finland. It has refineries in Kazakhstan, Netherlands, Bulgaria, Romania and Ukraine. LUKoil was also operating in Iraq before the US invasion. The number of oil filling stations run by the LUKoil in the United States is 3000-2000 stations bought from the Getty Petroleum Marketing Company and 1000 from Exxon-Mobil. Putin also played a crucial role in limiting the Conoco Phillips purchase of LUKoil stock. Putin insisted on giving just 20% ownership of LUKoil stock to Conoco Phillips.

By contrast without consulting Putin the Tyumen oil Company (TNK) decided to have 50-50 collaboration with The British Petroleum (BP). Though Putin participated in the TNK-BP merger ceremonies along with British Prime Minister Tony Blair in London, he was not quite happy with the 50-50 arrangement. It was reported that the Russian Government was not pleased with the operating control of the BP personnel. The BP management tried to make up with Putin through a meeting between its CEO and Putin. In its attempt to placate Putin it entered the auction of Yukos assets to help Rosneft as a second bidder. In the wake of TNK-BP 50-50 deal, Putin came out with a policy declaration that in the exploration of new off and onshore fields only
such companies would be allowed to participate in which the Russian partner had at least 51% control.

Commenting on Putin’s strategy in dealing with private energy companies both foreign and Russian operating in Russia, Marshall Goldman writes: ”like a well-bred and carefully trained horse that still needs the periodic string of the whip to remind the horse that it is a horse and the man in control is the jockey, the Kremlin, with almost as a matter of routine periodically sent in tax collectors and inspectors not only to collect taxes and carry out inspections but also to harass. Beginning in 2006, environment authorities joined in this minuet.” (Goldman 2008:128).

The LUKoil was slammed with notices that it was running below schedule in exploration, drilling and starting production. The recent spate of accusations against private owned Russian and foreign oil companies like the LUKoil in the Comy Republic, Royal Dutch Shell, Mitsui and Mitsubishi in the Sakhalin II project, Exxon-Mobil and its partners on the Sakhalin I project as well as hostile moves against TNK-BP partnership in the Kovykta natural gas project near Irkutsk are seen as a part of larger strategy to strengthen the largely state owned gas and oil national champions like the Gazprom and the Rosneft.

Beginning with the mid 1970s when the Soviet government brought in Japanese company to explore oil and gas in the region of Sakhalin Island in the Sea of Okhotsk, the Russian authorities concluded favourable Production Sharing Agreement with foreign companies who had more experience of working in difficult environments when the sea freezes over, most of the winter and who had better drilling equipments and technology. However, in July 2005 when the Shell hiked its cost to 20-22 billion dollars followed by Exxon to 17 billion dollars, the Russians began to press for revision of the original
production sharing agreements. The Russian government also tried to protect its interest by compelling Shell to have Gazprom as a partner. The Shell agreed to sell 50% equity + one share to Gazprom in Sakhalin II at a price of 7.45 billion dollars.

Besides Shell, the French petroleum company, Total, also responded by offer of cooperation with the Gazprom to develop the Shtokman Natural Gas deposits in the Barents Sea: Total will convert the gas in this region into LNG (Liquefied Natural Gas) which will eventually be transported on ships. The Shell and the Exxon-Mobil were slapped with charges of violating the pollution standards to pave the way for cancellation of the original Production Sharing Agreements (PSAs).

**Putin’s Policy in his second term:**

By 2008, when Putin’s second term as President came to an end, he had by use of certain high handed and authoritarian methods by western standards made serious dents in the wholesale process of privatization during the decade of 1990 and restored what Lenin in his days termed the acquisition by the state of the “commanding heights” of Russian industry in the sectors of minerals, energy and metals. Putin does not seem to view it as something abnormal. He told the Valdai Hills Discussion Group meeting in September 2005 that reassertion by the state to gain control of its energy assets is a normal course of policy adopted in most of the countries with the exception of the U.S. and Britain.

But in Marshall Goldman’s view the western criticism of Putin’s policies is not directed against the state assuming commanding heights of Russian energy industries but against the way in which the state in Russia under Putin has done
in imprisonment of Khodorkovsky, the asset stripping of Yukos and the strong arm tactics used against shell in Sakhalin II, B.P. in Kovykta and Total in Kharyaga. The Exxon-Mobile at its Sakhalin site was by August 2007 subjected to ninety inspections. Even if one were to assume that the western companies were not fully innocent, the need for an independent judiciary and provision for appeal cannot be denied. What is disappointing is that the Russians were not doing it in what they themselves had started calling since the days of Presetroika as "a civilized way". As a democratic market economy Russia is expected to follow less arbitrary and more lawful methods for strengthening the state control over the natural resources in their country. A somewhat justified criticism of Putin's authoritarian and arbitrary methods notwithstanding his conduct of foreign policy using Russia's newly gained status of whatever you call- Energy Superpower or Great Power, the new Russian leader is far from one pursuing the imperialist policy of the old Russian empire. Putin belongs to the category of what a Russian-American scholar A.P. Tsygankov calls the 'Great Power Normalisers (Tsygankov 2006: 155).

Oil and Foreign Policy:

According to Tsygankov, Russia's foreign policy schools may be divided in four categories: 1. The Integrationists, 2. The Balancers, 3. The Neo-imperialists and the 4. The Great power Normalisers. The Integrationists project Russia's similarity with the west which they consider to be the most progressive civilisation in the world. While the early Integrationists represented Russia as a loyal member of the families of Royal Monarchies, their Soviet era counterparts like Mikhail Gorbachev with their version of humanitarian
socialism harped upon the natural affinity of their country with the west, based on such shared values as democracy, human rights and free market. In the Post-Soviet period integrationists like Yeltsin’s foreign minister Andrei Kozyrev pleaded for transformation of the very system of old Russian values by accepting the primacy of the individual and the free market over society and state in order to develop natural partnership with the western countries.

The balancers advocated the view of Russia as a distinct geopolitical and cultural entity. The school of balancers is represented by Evgeny Primakov, former chief of foreign intelligence, foreign minister and Prime Minister of the Russian Federation. Primakov set the goal of becoming a pole of independent power in a multipolar world before the Russian foreign policy. Primakov wanted Russia to counterbalance the west, particularly the United States by entering into alliances with non-western powers like China and India, by modernising Russia’s economy and by strengthening its ability to organise and control the Post-Soviet space. To be fair to Primakov, he was not opposed to a limited cooperation with the west on terms of absolute equality. Primakov’s vision of great power balancing was inspired by Russian and European great power diplomacy and by traditional geopolitical theories. The balancers’ viewpoint found strong support among military industries, army and the security services. The leader of Russian Communist Party, Gennady Zyuganov, belongs to an extremist faction of the balancers for whom Russia’s cultural identity was not only different from the west but anti-western. This branch of the school of balancers has been dubbed as neo-imperialists. They support the notion of expansionism under the Russian leadership into the former Soviet space in order to restore the lost balance of world power through a more dynamic external role of Russia. The integrationists are opposed to the balancers’ priorities of reviving the Commonwealth of Independent States (CIS) as a
vehicle of post-soviet integration, resisting the eastern expansion of NATO, developing military cooperation with Iran and promoting a Russia-China-India Strategic Triangle. The normalisers represented by Putin, in spite of their ideological proximity with the balancers, differ with the latter on means of achieving their goal of regaining Russia’s old political and economic influence. The normalisers’ foreign policy strategy was formulated in Tsygankov’s view by the Council for Foreign and Defence Policy through its adoption of “Strategy for Russia: An Agenda for the President-2000.” (Arbatov A.G. et al. 2000). The document represented the new pragmatist consensus. Both, Deputy Foreign Minister A. Adamishin, an integrationist, and K. Zatulin, Chairman of Duma’s Committee on CIS affairs, a balancer participated in the formulation of the document. They found Primakov’s vision of multipolar world to be outdated and potentially confrontationist and costly in implementation. They proposed selective engagement along the lines of Russia’s nineteenth century policy of “self concentration.” followed after defeat in the Crimean war, and with China’s policy initiated by Den Xiaoping. “Rejecting the Soviet period policy of integration at the expense of Russia, they advocated tough defence of Russia’s national economic interests.”

Putin’s first term as president was remarkable for its course of great-power normalization, or great-power pragmatism. Putin was slowly moving away from the balancing course of Primakov. He mastered the art of engaging the West in the different post 9/11 environment. If Gorbachev had used nuclear arms race and environmental degradation posing a threat to the entire humanity, Putin uses the common global threat of terrorism to engage the west in a joint search for solutions. In his engagement with The West Putin consistently pursued the course of promoting the national interest of Russia as a great-power: As Tsygankov aptly observes, “While Gorbachev lost his battle,
Putin seems to have learned to beware the dangers of making too many concessions to the West. His new foreign policy transformation was made possible by the reshaping of domestic interest groups and their identity visions, as well as changes that had taken place in the internal arena.” (Tsygankov 2006: 156-157).

The increasing role of oil and energy in the Soviet Union and Post-Soviet Russia has been both a blessing and curse as Fiona Hill in her work, ‘Energy Empire: Oil, Gas and Russia revival’ writes, “the history of the USSR offers further illustration of this. Like Russia’s economy, the late Soviet economy was built on and supported by oil. One of the prevailing theories behind the decline of the Soviet economy that ultimately led to the collapse of the USSR was that it was precipitated by an oil production decline, combined with both a dramatic drop in world oil prices after record highs in the wake of 1970s OPEC oil embargo, and by the mismanagement and the misuse of oil resources” (Hill 2004: 51). Fiona Hill also refers to a very apt observation by an American scholar, Stephen Kotkin, that “Without the discovery of Siberian Oil, the Soviet Union might have collapsed decades earlier... oil money... paid for a huge Soviet military build up that, incredibly, enabled the country to reach rough parity with the United States. And it helped defray the costs of the war in Afghanistan launched in the late 1970s... Oil seemed to save the Soviet Union in the seventies, but it merely delayed the inevitable... That was because Soviet factories consumed energy in horribly gluttonous quantities, as if it were free. Then in 1983, Siberian oil output began to decline... Making matters worse in 1986, world oil prices and dollar profits the Soviets had been enjoying for years, were wiped out.” (Kotkin 2001: 15-16).
Vladimir Putin’s foreign policy has been a subject of great debate among both scholarly and policy circles. There are widely divergent opinions about the President’s ideas and intentions. While some like Trennin, Legvold, Lo and Sakwa find him a pro-western “accommodationist”, Sestanovich and John Mccain see in his course “A creeping coup against the forces of democracy and market capitalism in Russia” that “is raising a spectre of new era of cold peace.”

Even though some critics of Putin have accused him of empire building, a saner analysis is bound to show that the Kremlin does not question the sovereignty of the newly independent states of Central Asia and the Caspian region. Moscow relies on informal diplomatic influences and soft power. Though interested in preserving its military bases in the former soviet republics, it doesn’t take recourse to strong arm tactics to obtain them. On the contrary, it renegotiates the concessions with the interested parties. Tsygankov is right in concluding that, “On a much smaller scale, what Putin does is more reminiscent of American policies and the American projection of economic, political, and cultural influence across the world. Moscow knows it well that it has limited resources to take a confrontationist course against the west. Hence, Putin has shown willingness to work with the west on the various economic, political and security issues.

Putin’s foreign policy strategy is that of a normal great power. Putin has, as Donaldson and Nogee observe, a genuine desire to get rid of ‘imperial ambitions’ (Donaldson and Nogee 2002). However, at the same time, his strategy also recognises that Russia cannot join the international community at the expense of its sovereignty and great power attributes and its material and human capability and territorial integrity. As Putin himself put it in 2003,
'Russia can only survive and develop within the existing borders if it stays at a
great power.' (Tsygankov 2005: 132). Great power status is not a goal in itself
for Putin but, a necessary means for its survival and condition for engagement
in the world.

In Tsygankov's view, Putin foreign policy strategy stands on three pillars of
state concentration, cooperation with the west and projection of influence in the
former Soviet region (Tsygankov 2005: 135).

Western scholar Fiona Hill also subscribes to a similar opinion. She writes,
"Since 2000, Russia has gradually begun to eschew the old Soviet approach of
emphasising the maintenance and deployment of its military power to ensure
its geopolitical position. Instead, Moscow has moved in the direction of first
building up and now starting to utilise its economic resources to encourage
neighbouring states to associate more closely with its regional policies. At the
same time, Russia's growing economy, the persistence of the Russian language
as a regional lingua franca- the language of commerce, employment and
education for many of the states of the former Soviet Union, a range of new
Russian consumer products, and a burgeoning popular culture spread through
satellite T.V., rock music, Russian popular novels, and the revival of the
crowning achievements of the Russian artistic tradition have all made Russia a
more attractive state for regional populations than it was in the 1990s. Over the
last several years, Russia has become a migration magnet for Eurasia. Millions
of people have flooded into Moscow, St Petersburg and other Russian cities,
from the South Caucasus and Central Asia in particular, in search of work and
a better life." (Hill 2004: 2-3). Putin's desire of constructive engagement with
the United States and other western powers has been manifested in several of
his important speeches and statements. During his 2002 visit to the United
state where he ‘draws the line’ in terms of Russia’s strategic interest, he gave the following reply: “What was important in the former frame of reference is largely becoming irrelevant at present. If Russia becomes a full fledged member of the international community, it need not and will not be afraid of its neighbours developing relations with other states including the development of relations between the Central Asian states and the United States of America. Rather, there were geo-economic benefits to be had from cooperation and deal making in the region”.

Putin’s stress on geo-economics over geo-politics was the result of a sharp debate within the Ministry of External Affairs and of Defence in which arguments of individuals favouring cooperation with the U.S.A. had an edge over the votaries of the traditional geopolitical line. Putin’s State of the Nation address in April 2002, the creation of a new general system of security through a permanent dialogue with the U.S.A. and working to change the quality of Russia’s relationship with NATO were listed as vital goals of foreign policy aimed at ensuring strategic stability in the world. Speaking at the conference of Russian diplomats held at Moscow in July 2002 he again emphasized the attainment of strategic stability through “Confident Partnership” with the United States as one of Russia’s clear cut priorities. Putin has sound reason for avoiding geopolitical rivalries which are likely to produce instability along Russia’s borders making it difficult for his government to address pressing problems of terrorism and economic reforms.
Energy Policy in Eurasia:

On 21 February 2005, the U.S. President George Bush made a remark that “Russia’s future lies within the family of Europe and the Tran-Atlantic Community” (Kaushik 2005: 8). Though admitting that democratic reforms cannot happen overnight, Bush exhorted the Russian government to democracy and rule of law. Putin seems to be taking the advice of Bush seriously. In his April 2005 State of the Nation address, he declared that “Russia was a European power with a civilizing mission in Eurasia. This represented a complete reversal of the Russian policy in the near abroad as outlined in the 1999 concept of security which contains Putin’s dictum that “Russia is a Euro-Asiatic Country”.

Putin’s famous statement that “Russia is, was and will always remain an European power” (Kaushik 2005: 8) is often cited as indicative of Russia finally turning its back upon Eurasians. The various strains of Neo-Eurasian thinking which have surfaced of late draw on the ideas of 1920s and 1930s and are based on the belief that Russia’s unique geopolitical position, its location both in Europe and Asia give it a geopolitical advantage which compel it to be a great power and put its claim for world leadership (Sakwa 2008: 244).

According to Richard Sakwa there are many strains of Eurasianism. Sakwa makes the following important observation: “there is a pragmatic Eurasianism, which simply reflects the fact that Russia is both a European and an Asian power; a neo-Eurasianism, with a more imperialist and at times semi fascist inflections that stresses geopolitical competition while denigrating the west; a civilization Eurasianism that stress the ‘ethno genesis’ of an entirely new society transcending old ethnic divisions in the Eurasian heartland; and an inter-Civilisational Eurasianism focussing on Russia’s multiethnic identity.
Dmitri Trenin, Russian scholar working for the Carnegie Centre in Moscow, has argued that China’s growing strength in the East and the instability of the Islamic South mean that Russia’s only geopolitical future lies with the West including accelerated integration with the Eurasianism and solid relations with the U.S. (Trenin 2001). Richard Sakwa is of the opinion that Putin has accepted this approach of rejecting Eurasianism. He writes; his thinking bears little trace of Eurasianism, but contains much to do with Russia’s position in Eurasia. Putin certainly is not at one with the school of critical geopolitics that questions the imperatives of space and geography, but his new realism try to break free from the traditionally static, monolithic and zero-sum representation of Russia’s role in the world. In short, Putin sought to normalize the debate on Russian foreign policy, stripping it of neo – Eurasian elements rooted in the nineteenth century views of competitive advantage and instead acknowledging 21st century realities.

Putin’s abandonment of Eurasianism as an important direction of his foreign policy need not be interpreted as western subservience. True, George Bush and Brzezinski would like Russia to forget about its historical interests in the former Soviet space in Eurasia-and accept and reconcile with the maverick status of just another European great power like France or Germany. But Putin, even though he asserts that Russia was a European power (takes it in terms of civilisation identity) is insistent that Russia must be accepted as an equal member of international community. In fact, the foreign policy does the neo-Slavophile concerns about autonomy and uniqueness and is not oblivious to pragmatic Eurasianist notions. Russia may still be viewed as following a policy of pragmatic realpolitik.
Oil Diplomacy in the C.I.S.:

Russia’s leadership role in Commonwealth of Independent States (CIS) still remains in the centre of Putin’s foreign policy. Under Putin Russia has become a full fledged member of the Central Asian Cooperation Organisation. Putin has also taken pains to consolidate the Collective Security Treaty Organisation of CIS countries under Russia’s leadership. While subscribing in general to priority of geo-economics over geopolitics and attainment of Russia’s lost great power status through exercise of the country’s “soft power”, Putin has not been found lacking in firmness in defending Russia’s geopolitical interests in the former Soviet space. His opposition to the western backing of Georgia’s aggressive onslaught against South Ossetia is a case in point. Putin has also taken active steps to pre-empt the western power from re-routing the supply of Central Asian and Caspian oil and gas through bypassing the Russian territory. Russia’s recent assertion of its power and influence in the Central Asian and the Caucasian region has been linked by some analysts to neo imperialism. Such a criticism however does not stick as Russia has regained its edge in this region through a persuasive diplomacy and not by arm-twisting. In fact, Russia could succeed only by making cooperation of these states with Russia more attractive and gainful for them. Of course, the development of a country’s hard power through increase in its military might is always helpful in facilitating the growth of its influence through exercise of soft power.

The creation of CSTO (Collective Security Treaty Organization), establishment of an airbase in Kant, Kyrgyzstan and conversion of the presence of 201 divisions in Tajikistan into a permanent Russian military base as well as activisation of Russian oil and energy giant in Kazakhstan, Turkmenistan, Uzbekistan and Kyrgyzstan are pointers to a new pro-active Russian policy in
Central Asia under Putin. According to important daily Nezavistimaia gazeta of 3 October, 2003 defence minister Sergei Ivanov released a document called “Unclassified Military Doctrine” for modernisation of the Armed Forces. This new military doctrine envisages pre-emptive Russian armed action if required by the interest of Russia or its obligation to its allies. Interference in the internal affairs of the Russian Federation by foreign nations or organisations supported by foreign nations is listed as a valid reason for Russia to respond. Putin has personally supervised the Russian preparation for new models of 21st century weapons. These weapons which have since been successfully tested during the strategic military exercise in February 2004 also include ICBM capable of hitting any target regardless of the developed US ABM system. Some reliable reports by military experts put Russia ahead of the United States. The development of a new weapon system Russia is also reported to have developed Isomer-based “Gama Ray” bombs (Kaushik 2003: 1-2). As already highlighted previously the military factor representing the hard power has had little to do with the new Russian ascendancy over the central Asia and the Caspian region. For a number of reasons Russia’s ‘Near Abroad’ becomes important in the energy based foreign policy of Putin’s Russia. The region contains rich oil and gas deposits which have often been exaggerated by these countries to attract western investments. Some western sources have also extolled the size of these resources in order to justify their policy of checkmating Russia in its drive to control this second Middle East or Persian Gulf oil bonanza. President Clinton declared the Caspian region, an area of the vital interest for US like Persian Gulf which amounted to an extension of the Carter Doctrine of the 1970s on the Persian Gulf as an area of key interest for the United States. However over a period of time it becomes clear that the US state department has blotted the energy resources of geopolitical strategy.
According to the US government agency the Energy Information Agency (EIA) the region has only 18 billion – 30 billion barrels. As for a natural gas, the proven reserves are about 6.5 trillion cubic meters with Turkmenistan holding the largest deposits outside Russia (Alec 2004: 1-2).

Caspian Oil and Russian Policy:

Even though some estimates of the Caspian region hydrocarbon resources seem to have been magnified by interested interest groups in the west and in the republics in the area, controlling the direction and volume of exports from this area is a matter of importance of Russia to retain its competitive advantages in the international energy market as Julia Nanay rightly points out, “The greater Russia’s control of energy flows from the Caspian, the more dependent Europe will be on it. In the oil market, Russia ideally could use the Caspian as a ‘swing producer’. If it is able to control oil flows from the Caspian, it can calibrate the timing of all exports from the region so that if the market should need the extra oil production, the Caspian would be there to supply it, and if there were a glut in one market, Russia could switch supplies to another or reduce volumes from the South. If Russia also built the East Siberian Pacific Ocean (ESPO) pipeline it could supply among routes and markets. In the future, as Russia’s own west Siberian production declines further Caspian oil could provide the output for Transneft’s pipeline” (Nanay 2009: 109).

Caspian gas was gainfully exploited by Russia for both external exports and domestic consumption because the Caspian countries did not have other significant export outlets other than the Russian pipelines. Russia bought this energy at a low price for selling it for huge profits in world markets. Now that Turkmenistan has succeeded in clinching a deal with China for its gas exports a
new pipeline is under construction for its eastward shipment. It is because of the changing dynamics of regional gas trade with the materialization of the prospects for opening of an eastern market that Russia has been made to promise to work out new arrangements in 2009 under which the Caspian countries would be receiving world price for their sales to Gazprom (Eurasianet March 14 2008). From 2009 the Caspian states will be concluding contracts with the Gazprom on a yearly basis. The old Gazprom practice of joining long term contracts for the purchase of gas is on the verge of collapse. Until 2006, the Gazprom was purchasing gas from Turkmenistan at dollar 46 per 1000 cubic metres and selling the same to Ukraine for dollar 95 per 1000 cubic metres. 60% of the gas supply to Ukraine came from Turkmenistan not Russia. Only in 2008, the Gazprom agreed to raise the price to dollar 130 at a time when it was selling the same gas to Europe for dollar 354 (Goldman 2008: 148). Thus, the Gazprom control over the pipeline network which dates back to the Soviet period has been most valuable strategic asset of Russia. As the Central Asian countries can export gas to Europe only through Gazprom's pipelines.

Russia is bringing pressure on the Central Asian states to tie up their gas sales under long term contracts. Russia is the most leading purchaser of the gas from the region. It uses their gas to meet Ukraine's demand. The Turkmen gas supplies release an equal volume of Russian gas for exports to Western Europe. Thus, the Caspian gas has become an important factor in Russia's relations with West Europe. Russia still retains its strong position in relation to the individual states of the Caspian region because most of the region's oil and gas pipelines pass through the Russian territory. But, the situation is changing in the recent past. The opening of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in 2006 has acted as a big catalyst for change. This pipeline was constructed with
the backing of the US government in the face of opposition by Russia. It is the first major pipeline bypassing the territory of Russia. It is accompanied by the opening of a relatively small capacity oil pipeline from Kazakhstan to China which became functional in early 2006. With the exception of these two pipelines, Caspian oil is exported mainly through the northern direction passing through the Russian territory using the old Soviet pipelines network. A new pipeline called the Caspian Pipeline Consortium (CPC) was opened in 2001 to transport Kazakh oil through the Russian territory. It joins the Tengiz oil fields in Kazakhstan with the Russian Black Sea port of Novorossiysk.

The CPC pipeline bars testimony to Putin’s resilient “accommodationist” foreign policy. Leading western oil companies are partners with the Russian companies in this venture which is also a blend of geo-economics and geopolitical considerations. Russia has also built some new transportation routes. The Blue Stream Pipeline bypasses Ukraine to bring Russian gas to the Turkish market. It is laid under the Black Sea. Thus, the only major gas pipeline bypassing Russia is the South Caucasus Pipeline (SCP), which runs parallel to the BTC oil pipeline reaching Turkey. It became functional towards the end of 2006. The SCP is running below its capacity as it receives gas from only the first phase of Shah Deniz gas field in Azerbaijan. Its gas is consumed in Azerbaijan, Georgia and Turkey. There is another small capacity gas pipeline running in the Southern direction from Turkmenistan to Iran.

With the world oil prices rising and competition from western companies increasing, the Russian government has been busy taking active steps for promoting Russian influence in the area. The period, since the election of Putin as president in 2000, has witnessed intensification of Russian efforts to
strengthen diplomatic ties and contracts as also agreements to expand gas pipelines on the Caspian and purchase of gas at higher prices.

Moscow is still faced with a number of challenges from the West. There is a proposal for construction of gas pipeline under the Caspian Sea which will provide access to Turkmen and also Kazakh gas to western markets through Turkey. Beijing has also joined these challenges from the West. It has concluded in an agreement with Turkmenistan for the construction of a gas pipeline and has signed a Production Sharing Agreement to exploit a gas field in Turkmenistan. An oil pipeline connecting Kazakhstan to Chinese province of Xinjiang is already operational and work is proceeding for building a Chinese gas pipeline from Turkmenistan through Uzbekistan and Southern Kazakhstan into China.

The discovery of giant oil and gas fields in Turkmenistan, Azerbaijan and Kazakhstan goes back to the soviet period. In Azerbaijan, Azer-Chiragh –deep water Guneshli (ACG) oil field and Shah Deniz gas and condensate field; in Kazakhstan, Tangiz oil field and Karachaganak gas and condensate field; and in Turkmenistan, Dauletabad were explored. There exploitation has, however, not begun during the soviet period. During the decade of 1990s, Russian companies were concentrated on working their Russian fields. The only exception was the LUKoil who’s CEO, Vagit Alekperov was born in Baku. It started taking interest in the development of hydrocarbon resources in Azerbaijan and Kazakhstan. Only with the beginning of 21st Century, Russia started looking to the Caspian regions where the western companies were already active. The United States was motivated in its Caspian policy by a desire to isolate Iran and undermine Russia’s influence. The US was working on the project of building a pipeline bypassing Russia. Between 1994 and 1998,
26 companies from 13 countries signed 15 Production Sharing Agreements for developing offshore resources in Azerbaijan including the Chiragh and Shah Deniz fields. In Kazakhstan, oil industry was largely an onshore affair. Giant American and western oil companies concluded agreements with Kazakhstan for developing the Tangiz and Karachaganak field.

Towards the end of the previous century, Russia was hamstrung by the financial and political chaos following the 1997 financial crisis in Asia followed by Russian default in 1998. In November 1997, when a situation of oil glut on world markets was created by an OPEC decision at Saudi Arabian initiative to increase the oil production in the OPEC by 10%, oil prices started falling, which had an effect on development of the Caspian giant oil and gas field.

When Vladimir Putin assumed office of President in 2000, he began his term by trying to consolidate Russia’s relations with Caspian and the Central Asian region. In May, he visited Turkmenistan along with the then Gazprom Chief Rem Vyakhirev. Russia was concerned over US overtures to Turkmenistan President Saparmurat Niyazov for building a gas pipeline under the Caspian Sea across Azerbaijan into Georgia and Turkey. He persuaded Niyazov to remain committed to northern route through Russia. Moscow also tried to delay the underwater gas pipeline through the Caspian Sea. On the ground of unsettled problem of maritime and economic zone boundaries between the Caspian states and the states of the Caspian Sea. The ground of environmental degradation was also actively propagated.

Putin did not try to obstruct the completion of the Caspian Pipeline Construction project (CPC) in 2001. It linked Kazakhstan with the Russian port of Novorossiysk and broke the Transneft export monopoly. Russia was actively
engaged in negotiations with the U.S. in building a second private oil export pipeline like the CPC across Russia to the northern port of Murmansk. From Murmansk, gas had to be exported to United States by sea in LNG form.

But, as mentioned above, in October 2003, by arresting Mikhail Khodorkovsky, the owner of Yukos, the Russian oil giant, for planning merger with a U.S. oil company, the Russian policy of accepting foreign collaboration in the oil sector in the region was put on the back gear. Negotiations for a private northern oil pipeline to Murmansk were left in the lurch along with the proposal for doubling the size of the CPC pipeline. With the U.S. invasion of Iraq in March 2003, Russia took a turn towards a hard-line posture in its foreign policy. Moscow did not approve of the unilateral U.S. action in Iraq bypassing the United Nations.

The rising oil prices in the wake of U.S. invasion of Iraq made Russia more confident and Putin began asserting, in 2004, greater state control over the entire Russian oil and gas industry (Nanay 2009: 113). It is worthwhile remembering that Russia had done precious little to prevent the construction of the BTC oil pipeline, the private pipeline linking Azerbaijan’s ACG fields with Georgia and Turkey, or the SCP gas pipeline from Azerbaijan’s offshore Deniz gas and condensate field through Georgia to Erzurum in Turkey. It was the completion of the SCP project which nudged Russia into a flurry of diplomatic activities towards the end of Putin’s presidency in 2007 and 2008 to prevent the building of the Nabucco pipeline which was to bring Caspian gas from the SCP into Europe. This policy is being actively pursued under the new Russian President Dmitri Medvedev who was earlier the chairman of the Gazprom board. Dmitri Medvedev will be pursuing Putin’s line of wooing both Azerbaijan and Turkmenistan.
The oil and gas reserves of Azerbaijan, Kazakhstan and Turkmenistan are considerable. Though modest in comparison to the Middle East, the current production in this region exceeds that of Norway. According to PFC energy estimate, oil production of Azerbaijan, Turkmenistan and Kazakhstan was 2.3 million barrel daily (mbd) in 2007, with over half of this from Kazakhstan. In 2010, it will be about 3 million barrel per day (Nanay 2009: 114). So far, as gas production is concerned, Azerbaijan, Kazakhstan and Turkmenistan possess over 7 tcm of reserves, insignificantly small in comparison with Russia’s 47 tcm. Yet, gas reserves are important as sizeable volumes are available for exports. Gas production was about 92 bcm in 2006 in the Caspian countries, with Turkmenistan accounting two-thirds of the total. J. Nanay thinks that “While Russia’s position in the region is still strong; it is also seriously challenged by other outside players, not only the U.S. and the Europe but, increasingly China.” Obviously under such conditions, the three Caspian states are, “constantly re-calibrating their energy relations with Russia to accommodate their neighbours to the north while, achieving maximum independence for themselves” (Nanay 2009: 114).

The new leaders in the Caspian states are old Soviet hands which chose past links to Moscow yet, having tasted power they have started distancing from Moscow. They are fully conscious of the fact that control over their natural resources was an important precondition for their holding onto power. Of the three Caspian states, Azerbaijan has been most successful in attracting the West by its hydrocarbon resources. Through a policy of diversifying investors and reaching out to key western powers, the Azeri elite have succeeded in ensuring the political and economic survival of their country and preserving its independence from Russia. During the last decade of the 1990s Russia dealt with the Caucasian states in a heavy handed manner. Being cash starved
Moscow was unable to lure the former Soviet Republics into its hold by offering economic incentives. It used the traditional divide and rule policy backing Armenia in its bloody conflict over Nagorno Karabakh lasting from 1988 to 1994. Russia gave large military assistance to Armenia and the Armenian dominated Nagorno Karabakh region, which weakened Azerbaijan which had to suffer the loss of territory of Nagorno Karabakh and face the problem of Azeri refugees. Besides Azerbaijan Russia also tried to influence Georgian politics to prevent construction of pipelines from Azerbaijan across the Georgian territory.

Azerbaijan’s independent course vis-à-vis Russia has much to do with the construction of the BTS oil pipeline. The SCP gas pipeline has further consolidated it. These pipelines will continue to give Azerbaijan considerable political and commercial advantage. Though a small gas and oil producer in comparison with Kazakhstan, Azerbaijan is likely to play an important role in the Caspian region as a pipeline corridor making its noticeable contribution to the energy security of the West. At present Russia is deeply engaged in trying to prevent the implementation of stage II of SCP which is planned to be extended to Europe through 3300 km Nabucco gas pipeline to be constructed by Austria’s OBM, Hungary’s MOL, Romania’s Transgaz, Bulgaria’s Bulgargaz, and Turkey’s Botas. This pipeline will bring gas from Azerbaijan and Turkmenistan to Europe. Thus, it is making a serious dent in Russia’s position as a monopoly supplier.

Kazakhstan which is the second largest country after Russia in the CIS family is as large as Western Europe. It is rich in it oil and gas deposits. Because of its importance as a country holding largest oil reserves in the Caspian region, Russia’s foreign policy under Putin has given maximum attention to this
Republic. Putin visited Kazakhstan 15 times during his Presidency. The private Russian company LUKoil has an important stake in Kazakhstan’s oil. LUKoil under Putin’s supervision is paying great attention to the Russian part of the North Caspian. Kazakhstan possesses proven gas reserves of 3tcm slightly more than Norway’s production of 87bcm\(y\) its production is just 24bcm\(y\). In 2007 the production of oil and condensates of 1.3 – 1.4 mbd was just about half of Norway’s 2.7mbd. Kazakhstan exports over 1 mbd of crude and condensates. The bulk of its exports are through Russian pipelines (BP statistical Review of World Energy). Kazakhstan has off shore oil and gas reserve base but for the present all its production is confined to on shore. Kazakhstan dose not face an acute problem on account of Caspian Sea legal issues. It has demarcated its off shore maritime boundary with Russia and the two states have on shore fields as the Tengiz field has 6 -9 billion barrels of oil reserves and more than 280 per billion cubic meters\(y\)ear of gas, and the Karachaganak field contains 2.3 -6 billion barrels of condensate reserves and 1.3 tcm of gas. The off shore potential of Kazakhstan is really huge. The Kashagan field in North Caspian alone is estimated to hold a minimum of 13 billion barrels of recoverable oil reserves and large volumes of gas. The three large fields of Kazakhstan (Tengiz, Karachaganak and Kashagan) are being developed largely with the participation of western oil giants. Russia’s representation through the LUKoil is insignificant, with the LUKoil holding just 5%share in a BP joint venture named LUK Arco in the Tengiz field. The Chevron has a 50% share in the Tengiz, Exxon Mobile (25%) and the Kazakh state company-KazMunaiGaz holds a 20% share. In the Karachaganak field, Russia’s Lukoil holds a 15% share, BG 32.5%, ENI 32.5% and Chevron 20%. Russia is conspicuous by its absence in Kashagan field. Besides the LUK oil,
no other Russian company is involved in the hydrocarbon sector in Azerbaijan, Kazakhstan and Turkmenistan.

In the mid 1990s, there was a move in some circles to break up Kazakhstan with the Russian dominated north merging with Russia. In such an eventuality, the north could have gone to Russia. It is possibly to prevent such an event from happening that in June 1997, Kazakh President Nursultan Nazarbayev established a new capital in the northern part of the country in a predominantly Russian dominated city called Akmola which Nazarbayev had renamed as Astana. The new capital of Kazakhstan is closer to Russia while the former capital of Almaty is closer to China. Kazakhstan’s two major onshore fields are located in the north of Kazakhstan which is not far off from the Russian border. The produce of these fields is transported to north through Russia’s pipeline system. Most of Kazakh gas is processed in the Orenburg plant which is in Russia. All these factors, as also the presence of a large Russian population, have put Russia in a strong position to bring pressure on Kazakhstan. The oil from Chinese company (CNPC) led onshore PetroKazakhstan Kumkol fields in the south central parts of the country is being shipped since 2006 through the Chinese built 962 km Atasu-Alashankou pipeline which brings 200,000 b/d into Xinjiang province of northwest China. The capacity of this pipeline is expected to be doubled by 2010. The pipeline Atasu-Alashankou linking Kazakhstan and China is not a private pipeline like CPC. This is a strategic project run by the governments of the two countries for objectives both political and commercial, yet, due to its small capacity this pipeline has not succeeded in pushing Russia to expand the capacity of CPC.

Kazakhstan has two different gas pipeline links to Russia. One links Karachaganak to Orenburg and the other, the Central Asian-Centre (CAC)
pipeline carries mostly Turkmen and some Uzbek gas to Russia. Russia has interest in the Central Asian gas flowing north through the CAC. Since the Karachaganak gas reserve are as large as of the major gas fields, in West Siberia, Putin has fixed his eyes on directing the Karachaganak gas flows for Russia’s Orenburg gas processing plant.

The existence of huge natural gas reserves in Turkmenistan resulted in this former President late Saparmurat Niyazov in believing that the country was a potential Kuwait. The natural gas wealth acted as a heady wine prompting Niyazov to create a cult of his personality. However, over the years, Niyazov was to discover painfully, that rich natural resources do not provide a passport for entry into a kingdom of affluence, particularly when the country is landlocked and further sandwiched between two holders of world’s largest gas deposits- Russia and Iran. Turkmenistan’s production of gas fell sharply from 84 bcm/Y during the Soviet period to 32 bcm/Y in 1996 and to a dismal low of 17 bcm/Y in 1997.

The country faced deep economic crisis when due to a dispute with Gazprom, its gas exports through the Russian gas pipeline system were cut. Faced with a dire situation, Turkmenistan began to look for a non Russian export route for its gas. A pipeline constructed in 1997 had the capacity to deliver 14 million cm/y from Turkmenistan to North East Iran. Turkmenistan’s Iran gas pipeline was the first challenge to the Russian monopoly of the export through the northern route. It was to follow with the construction by Azerbaijan of the Supsa and the BTC pipelines. In 1998, the US started taking interest in diverting Turkmenistan’s gas export from Iran by sponsoring the construction of a pipeline under the Caspian Sea. The proposed Trans-Caspian Pipeline (TCP) was designed to bring the Turkmen and the Kazakh gas across the Caspian to Azerbaijan and Turkey via Georgia.
The TCP project could not take off. Niyazov showed no inclination to resolve his offshore boundary disputes with Azerbaijan and wanted to be handsomely rewarded for his cooperation with this project to which Russia was dead opposed. The development of Shah Deniz gas field in Azerbaijan after 2000 reduced the interest in Turkmen gas.

It was in this atmosphere conducive to a deal with Turkmenistan that in April 2003, Turkmenistan agreed to ship gas to Russia for the next 25 years (Nanay 2009: 122). Initially, for a period of 3 years, payments by Russia for Turkmen natural gas were made by cash and equipment deliveries in equal proportion. The mode of payment thereafter, was to be agreed upon later. But, the sharp rise in oil and gas prices in the world markets in 2004 resulted in Turkmenistan taking a tough stand by demanding higher prices for its gas supplies to Russia and Ukraine. Turkmenistan was particularly sore on account of Russia using Turkmen gas for export to western markets for a price more than 3 times of the price it paid to Turkmenistan for deliveries to Ukraine (Nanay 2009: 122).

In April 2005, the Gazprom agreed to purchase Turkmen gas by making full payment in cash at rate of 44 dollar per thousand cubic metres as against dollar 18-22 per thousand cubic centimetres paid in 2004 (Nanay 2009: 122). On January 1, 2007, Gazprom further raised the prices for Turkmen gas from USD 65 per thousand cubic metres to USD 100 per thousand cubic metres. Beginning with January 2007, Gazprom agreed to increase its import of gas from Turkmenistan by 4 times, from 12 bcm to 50 bcm. The increased volume of gas was to be supplied to Ukraine through RosUkrEnergo (RUE), a Russian Ukrainian joint venture. By supplying this increased amount of gas to Ukraine, the Gazprom got permission to use Ukraine’s transit pipelines. Turkmen gas thus, became very important for the Russian Gazprom because of the need to meet Ukraine’s demand and use Ukraine’s transit pipelines to export the
Russian gas to Europe. If Ukraine does not get its supplies, there is a danger that it will lead to shortfalls in supplies to Europe. Gazprom succeeded in concluding an agreement with Turkmenistan for supply of 50 bcm/Y at a price of USD 100 per thousand cubic metres in January 2006. President Niyazov died in December 2006 and the new President Gurbanguly Berdymukhammedov, who was elected in February 2007, was not happy with the dollar 100 price. In December 2007, Russia agreed to hike the price of Turkmen gas to USD 130 in return for a Pre-Caspian Gas pipeline. In the second half of 2008, the price of Turkmen gas was raised to 150 dollars. (Nanay 2009: 123). The gas price charged from Ukraine was increased to dollar 179.50 per 1000 kilometres. In March 2008, Gazprom announced that it would be paying European prices for Central Asian gas in 2009. Of late, Kazakhstan, Turkmenistan and Uzbekistan have declared their intention to conclude only annual contracts for their gas supply.

The new Turkmenistan President Gurbanguly Berdymukhammedov concluded a gas supply agreement with China under which 30 bcm/y of Turkmen gas would be supplied to China through a pipeline which the Chinese National Petroleum Company is constructing through Uzbekistan and Kazakhstan to China. The gas price paid by China will be dollar 145 per thousand cubic metres; more or less the same as paid by Russia.

**Russian Oil Policy in Ukraine and Georgia:**

Russia’s problems with the transit states which played a crucial role in Russia’s energy exports to Europe became acute with the election of Viktor Yushchenko as President of Ukraine through what has become famous as ‘The Orange Revolution’. Putin mounted a squeeze on Ukraine with his September 2004 statement that Yushchenko was welcoming the west and turned his back on
Russia, but he should understand that if he did so, Russia was under no obligation to continue to subsidise its energy exports to Ukraine (Goldman 2008: 144). Ukraine was paying dollar 50 per thousand cubic meter of gas which was not much different from the Russian prices whereas European countries were paying USD 150. On January 1, 2006 Gazprom demanded that Ukraine pay at the rate of USD 150. This would have hiked the export bill of Ukraine for natural gas to anything between USD3-5billion a year. The Gasprom insisted that the old contract for USD 150 had expired and demanded payment at the increased rate. Gazprom reduced the flow of gas to Ukraine to an amount just sufficient to meet its obligations towards West European customers. But Ukraine continued to draw the same amount that it was receiving prior to December 31, 2005. Putin used the argument which the United States advanced against subsidised gas prices for Russian users. According to him it was in their own long term interest if they (Ukraine) were to accept market prices. Moscow denied that the pressure on Ukraine was political and announced that flow of gas would be restored if Ukraine agreed to pay the market price. By consuming gas meant for West Europe, Ukraine was just stealing Europe’s gas. The West Europeans showed sympathy for Ukraine because of the suffering of the people facing winter cold. It was also pointed out that there was no direct transparent contract between Gazprom’s-export and Ukraine. In fact a shady company called RosUkrEnergo (RUE) had been setup to export gas purchased by Russia from Turkmenistan, which sold it to UkrGasEnergo and the later delivered it to Naftogaz which supplied gas to Ukraine consumers like the earlier intermediary company ITERA with the involvement of notorious Makarov and High rock Holdings with Ukrainian business man Semion Mogilevich as its chief. This entire mechanism smacked up terrible corruption (Goldman 2008: 148 -149). Such shadowy entities
Marshall Goldman cast doubt on the integrity and the transparency of the economic interaction between Russia and Ukraine.

Russia also had its share of troubles with Georgia, another transit States. The Gazprom brought pressure on Georgia and Moldova to demand that they sell their domestic pipelines. In 2007, Georgia agreed to pay the European price of USD 235 but did not agree to sell off its domestic pipeline. Moldova and Armenia both yielded before Gazprom pressure and agreed to sell Gazprom a controlling share in their gas distribution network (Goldman 2008: 150). In 2006 after Georgia arrested and expelled some Russian diplomats, Russia declared an embargo on imports of Georgian wine and fruits and vegetable. By 2007 Georgia managed to shift more than 80% of its natural gas imports to non-Russian sources (Goldman 2008: 151).

Russian strong arm tactics were not confined to Ukraine and Georgia. Even friendly Belarus was not spared. In January, 2007 Belarus was told to pay more for its gas at a price of 100 dollars per thousand cubic metres which was just the double of 2006 prices. Belarus was also asked to pay 180USD for each ton of oil as export duty. President Lukashenko agreed to 100 dollar price for gas but imposed dollar 45 a ton as transit fee on oil set to Western Europe through Belarus (Goldman 2008: 151). Ultimately a compromise was reached. Russia lowered its export duty on oil from USD 180-to 150 a ton and Belarus agreed to abolish its transit fees. Once again in the middle of 2007 Russian gas supplies to Belarus were interrupted for non-payment of arrears which were cleared with financial assistance from Hugo Chavez, the President of Venezuela and gas started flowing again. During the second presidency of Putin, Russia took a line of strong opposition to the construction of NABUCCO pipeline which was to join the south Caucasian pipeline (SCP) to carry gas through
Bulgaria, Romania, Hungary and Austria to the west. This line was to be finished by 2011. To dissuade Turkey from joining this project the Gazprom increased deliveries of gas via its Blue Stream pipeline under the Black Sea. In 2006 Putin travelled to Budapest in an effort to canvass the Hungarians for using Russian gas supplied by Gazprom and not the Caspian gas brought by the BP from the Caspian. He suggested the Gazprom’s South European gas pipeline for cheaper supply of gas. As bait to Budapest, Putin proposed that Hungary rather than Austria should be the hub for European gas supplied from Russia. In March 2007 Hungarian Prime Minister announced support for Gazprom’s Blue Stream Pipeline (BSP) over the western sponsored NABUCCO which he called “a long dream and old plan.” Subsequently however he modified his position supporting half supplies from NABUCCO.

Putin also won support from Italian company Eni to join hands with Russia to build South Stream Pipeline by joining the already functional Blue Stream Pipeline running under the Black Sea.

Putin won over German chancellor Gerhard Shroider for his proposal to construct a gas pipeline under the Baltic Sea directly from Russia to Germany. The Gazprom is to have 51% share in this gas pipeline under the Baltic Sea called Nord Stream Pipeline (also the North European Gas Pipeline (NEGP)). Shroider after he ceased to be German chancellor took over as Chairman of this new pipeline company in which two German companies have a share of 24.5% each; Lithuania and Poland are opposed to the construction of the new stream on the pretext of ecology of Baltic Sea. Sweden also insists that the new pipeline must have the approval of all the countries having Baltic Coastline. The new German Chancellor Angela Marcel reassured Poland with an offer to divert gas to Poland with an offer from the German pipeline. Gazprom has
plans to take over the Centrica Company of Britain which is the biggest domestic distributor. It is also trying to create a joint venture for gas distribution in China’s domestic market.

With the oil prices remaining high Russia is upbeat as a newly emerging political and economic power. Russia sent an expedition to the Arctic into submarines to plant a Titanium Capsule with a Russian flag under the North Pole. It was followed by Russian claim over 460,000 sq. Miles of territory under the Arctic Ocean.

Moscow’s claim to this territory is projected on the ground that the underwater Lomonosov mountain Range extends from the Russian mainland into the North Pole region. The region is supposed to have 10 billion tonnes of oil and gas deposits, equal to one fourth of the world’s total undiscovered oil and gas (Goldman 2008: 207).

The new assertiveness of Russia under Putin got reflected in his speech in Munich, Germany on February 10, 2007 at the annual conference on security policy. Putin criticised President George W. Bush and the United States for pursuing unilateral policies in Iraq and Eastern Europe. Emphasising the universal invisible character of security”, Putin noted that “the cold war left us with live ammunition, figuratively speaking.... ideological stereotypes, double standards and other typical aspects of Cold War thinking.” Putin cautioned against the dangers of a “unipolar world”, “a world where there is one master, one sovereign.”

He warned:... “this is pernicious not only for those within the system but also for the sovereign itself because it destroyed itself from within.” He had a jibe at
the west – "those who teach us (about democracy) do not want to learn themselves."

He listed a range of problems such as marginalisation of the UN, remilitarisation of Europe through Missile Defence development, NATO enlargement, weakening of non-proliferation regime and transformation of the OSCE into a vulgar instrument to promote the policy of interest of one or a group of countries (Sakwa 2008: 260).

Though Putin disagrees with the views that today's Russia has become an energy superpower, in reality it has. The oil and gas resources are not newly discovered under Putin's presidency in Russia but Putin's strategy to exploit Russia's growing energy clout for achieving its foreign policy objectives has really been commendable.