

Contents

Introduction

Chapter I. Energy and politics

Chapter II. Russia, the energy power from the origins up to Putin

Chapter III. Analysis of the Russian energy card

Chapter IV. Case study: Ukraine

Bibliography

Introduction

“The struggle for power is universal in time and space and is an undeniable fact of experience. It cannot be denied that throughout historic time, regardless of social, economic and political conditions, states have met each other in contests for power. Even though anthropologists have shown that certain primitive peoples seem to be free from the desire for power, nobody has yet shown how their state of mind can be re-created on a worldwide scale so as to eliminate the struggle for power from the international scene. ... International politics, like all politics, is a struggle for power. Whatever the ultimate aims of international politics, power is always the immediate aim.”

H. Morgenthau¹

The quote of Hans Morgenthau, one of the most influential realist International Relations scholars is very relevant to describe pattern of the current condition of international political outline. In the aftermath of the Cold War, the bipolar international system transformed in unipolarity, led by the United States.

Today the world is moving towards multipolarity because of the challenge launched by emerging countries such as China, India and Russia.

Thus in the context of multipolar system and globalization, the competition and rivalry among nation is highly intensive. According to Morgenthau's realistic approach, each state needs power to protect national security and assert its in the international relations. In fact power assures the ability to exert economic, military, political and social influence on a global scale. Enormous pressures exercised by great powers in their continuing struggle to achieve global or regional hegemony are constantly changing the global equilibrium.

1 J.Morgenthau, *“Politics Among Nations The Struggle for Power and Peace”*, New York,1948.

The realist framework, as an International Relation theory, is useful to understand some states' choices and international outcomes. Although realism is often seen historically as the dominant theory, it is important to remember that is just one perspective within International Relations theories. Opposing arguments suggests that realism is too simple, reducing the complex reality of world politics to a few general laws. In addition the concepts of power and national interests vary across nations. Realism in fact accepts the great powers rise and fall, wars come and go, but the basic rules of the game can not be changed. This theory, hence, has a cyclical view of history and significantly downplays possible changes. The harshest criticism stems from liberalism: this theory suggests that states don't just compete or worry about power, and that cooperation among nations exists.

Given the current international political landscape, many states use their political, economic or military capabilities in the most effective way to stiffen the nation's position in the global arena. Russia is no exception.

The resurgence of Russia as a leading nation in international politics after the collapse of the former Soviet Union was rapid. In two decades Russia witnessed a political and economic turnaround : from the disintegration of the Soviet system, to Yeltsin “shock therapy” and finally the Putin presidency.

In a public document called “Russia at the turn of the Millennium”, published in 1999, president Vladimir Putin declared that:

“Russia was and will remain a great power. It is preconditioned by the inseparable characteristics of its geopolitical, economic and cultural existence. They determined the mentality of Russians and the policy of the government throughout the history of Russia and they cannot but do so now”.²

2 R. Sakwa, “*Putin: Russia's Choice*”, Routledge, 2004, p. 257.

Hence, Putin wanted to restore Russia to great power status after the post-Soviet period (1989-2000), which was characterized by economic turmoil and political disarray. The goal was achieved in all sectors: political, economic and foreign affairs. Data analysis confirms.

First of all, economy grew 7 per cent a year between 1999-2007³: a growth rate higher than any of the other G8 industrialized countries. This growth is the product of many factors:

- world market prices of natural resources (oil, natural gas) rose in the 2000s, therefore revenues from export were higher⁴; oil prices grew from US \$27/barrel in 2000 to US \$94/barrel in 2008⁵;
- the volume of exports has gone up;

By 2010, Russia was an energy powerhouse ⁶: it is the world's leading exporter of natural gas, and the second after Saudi Arabia exporter of oil.⁷

The boom in earnings from energy sector allowed Russia to repay foreign debt, to build currency reserves and to allocate funds to technology, advance equipment and military sector.

The economic resurgence was matched by a strong power consolidation pursued by the couple Putin-Medvedev. From 2008 to 2012 Medvedev was the President of Russia Federation and Putin was the Prime Minister. The 2012 elections shift the roles, therefore today Putin is, for the third time, the president in office and Medvedev the Prime Minister.

Putin adopted a number of measure to centralize power under the presidency and reestablish control over the periphery. Putin's idea of Russia comes under “managed democracy”, a political system built upon top-down control.⁸

3 V. Tret'jakov, “Progetto Russia Che Cosa Vogliono Putin e Medvedev”, Limes 2010, p. 58.

4 Ibid;

5 Energy Strategy of Russian Federation to 2030, p.13.

6 Vladimir Ivanov, “Russia emerging as energy powerhouse”. Daily Yomiuri, June 13, 2003.

7 <http://www.gecf.org/gecfmembers/russia>

8 Myers, Steven Lee. Interview with President Putin. The New York Times. October 6, 2003.

The first term of Putin presidency, which lasted from 2000 to 2003, was target at the regaining of state power and state capacity over the post-Soviet space. The tendency of centralization and simplification of the space under the central authority reaches its peak in the process of regions' unification.⁹ Putin's leadership decided to gathered the eighty-nine regions into seven federal districts, each headed by a presidential representative.

Moreover, with the success of the second military campaign in Chechnya (that occurred soon after Putin took office as prime minister), the president settled a question which threatened the existence of Russia.

Losing Chechnya, in fact, would have meant the loss of other republics of the North of Caucasus and thus, a further disintegration of Russia after 1991.

The military campaign initiated in September 1999 after the incursion by Chechen rebels into Dagestan to set up an Islamic state. Putin immediately characterized the conflict in terms of terrorism: for this reason the military phase was quick and the responsibility for the operation was devolved to the Russian Federal Security Service (FSB).¹⁰

Thus, the victory in Chechnya gave Putin the whole backing of government and population. The reestablishment of Russian influence in post Soviet space often led international press to judge Putin's foreign affairs as “Putin's imperialism” or “Putin's empire”. Marcel H. Van Herpen wrote a book whose title is “Putin's war: The rise of Russia's new imperialism” and many journalists have described Russian foreign policy in terms of imperialism, comparing Putin to czars.¹¹

Pivotal to concentrating executive power, the Putin regime has also constantly worked to regain control over the broadcast media and the electoral process. Journalists critical of the government have been imprisoned and attacked .

9 V.L. Kaganskij, “*La Russia esiste ancora?*”, Limes “La Russia Sovrana” , 2010, p.53.

10 L.Jonson, *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy*, I.B. Tauris, 2004, p.123.

11 <http://theweek.com/speedreads/index/257842/speedreads-ukraines-president-putins-dream-of-neo-soviet-imperialism-is-dead>

<http://www.themoscowtimes.com/opinion/article/putins-imperial-ambitions/496138.html>

<http://www.ft.com/intl/cms/s/0/7ef8545c-ab65-11e3-8cae-00144feab7de.html#axzz3GPrUXkj>

<http://www.worldpolicy.org/blog/2013/08/05/putin-man-who-would-be-tsar>

Putin and his entourage “eliminated what remained of Russia's pluralistic press, squashed civil society groups, exerted extensive control over the electoral process and brought the judiciary into line to provide necessary decisions in political cases”¹².

In addition, further goals of President's policy were the attack on oligarchs and governors and their replacement with his own political allies. Russian oligarchic class grew up under the former president Boris Yeltsin and his shift to a more capitalist free market economy. During this period, some businessmen grabbed the most lucrative assets of the state in rigged auctions, that is to say at extremely cheap prices, thus becoming oligarchs.¹³

Having reassert the maximization of power during the first three years of term, Putin's leadership then focused on energy sector re-nationalization. According to Simonov, the president of the Center of Russian Political Situation, “whoever controls oil, controls the country. And therefore, whoever controls the country inevitably tries to gain control over oil”.¹⁴

Putin strongly believes that Russia's reviving power credentials would essentially be home-grown. First of all natural resources. In the article “Notes of the Mining Institute”¹⁵, he argues that natural resources will secure not only the economic development, but also will guarantee the international position. Given the strategic salience of the energy sector, it must be planned and competitive. According to the President's view, reported in the article, the only one authority able to accomplish these tasks, is the government. In addition, this view is generally backed by Russian people, because they link free market economy and democracy with the failure of Yeltsin's “shock therapy”.

As a result, between 2003 and 2007, the Russian state managed to renationalise approximately half of Russia's oil industry. In particular the government reasserted

12 J. Perovic, R.W. Orttung, A. Wenger, “*Russian Energy Power and Foreign Relations*”, Routledge 2009, p. 54.

13 J. Perovic, R.W. Orttung, A. Wenger, “*Russian Energy Power and Foreign Relations*”, Routledge 2009, p. 51.

14 Ibid p. 54.

15 V. Putin, “*Mineral Raw Materials in the strategy for Development of the Russian Economy*” Notes of the Mining Institute, January 1999.

its majority ownership of the giant Rosneft (oil), Transneft (oil pipeline) and Gazprom (natural gas).

Economic recovery has gone hand in hand with political stabilization, strengthening Russia's position. As a consequence, the economic wealth and the political stability strengthened the country's position in international relationships and Russia dares pursue a more assertive foreign policy.

Energy has been the driving force, not only for the Russian economy but also for foreign relations as it has been a key factor in shaping Russia's foreign relations in both Eurasian and global context. From the Soviet times, Moscow exported hydrocarbons in the CIS countries and from the 1970s to Western Europe. The relationships between Russia and CIS countries are particularly intricate: energy flows through pipelines of Soviet origins, and also the prices stem from bilateral agreements which resemble the Soviet subsidised prices. The reconstruction of the economic and political balance after the collapse of the Soviet Union was not straightforward, and relations between Moscow and the "Near Abroad" sometimes got turbulent: more than once Moscow shut down energy supplies.

On the other side, Western press and governments feared Russia's assertive behaviour because European dependence on Russian gas kept on increasing.

Anxiety over gas disruptions and Russian blackmails give rise to the rhetoric of "energy weapon". According to this view, Russia uses its massive energy endowments for geopolitical gains, hence as a tool of politics. Russia has been depicted as a "superpower"¹⁶. Also Jeffrey Mankoff, in the second edition of his book "Russian Foreign Policy: the Return of Great Power Politics" endorses this view, as well as Hedenskog, Konnander and Nygren in "Russia as a Great Power: Dimensions of Security Under Putin".

16 A. Denisov, A. Grivach, "*The gains and failures of an energy superpower*", Russia in Global Affairs, available at <http://eng.globalaffairs.ru/number/n_10928>

International press's headlines sound like the “Big Bear”¹⁷ threatens to cut-off oil supplies, Putin's blackmail¹⁸, comeback of Cold War¹⁹ and even a looming World War III²⁰.

The major aim of this work is to examine if the Russian gas weapon is a real coercive tool that influences the behaviour of the neighbouring countries, or is a result of exaggerated Western fears. Russian leadership in fact denies the use of energy as a political tool and blames the United States and Europe operating double standards about principle of market economy. President Putin in a Kremlin conference said: “An argument is being imposed on us that Russia allegedly uses economic levers to attain its ends in international politics. This is not true. Russia has been meeting all of its obligations in full, and will continue to do so in the future.”²¹

In order to better understand the dynamics of the use of oil and gas as a foreign policy tool and the role of Russia as an energy superpower in international politics, it is important to examine the utmost importance of fossil fuels in today industrialized world. Then it is necessary to analyse the evolution of Russia after the collapse of the Soviet Union in order to look into how Russia became a today energy superpower. Afterwards a deep analysis of the gas diplomacy follows: beginning with an historical context, I will deepen why Western analysts perceived the Russian energy policy as a threat.

17 http://www.foreignpolicy.com/articles/2014/09/05/beware_the_bear_russia_eu_sanctions_obama_putin_merkel_ukraine

18 <http://www.theguardian.com/world/2013/nov/22/russia-ukraine-eu-pact-lithuania>

19 <http://www.reuters.com/article/2014/03/17/us-ukraine-crisis-coldwar-analysis-idUSBREA2G07B20140317>

20 <http://www.dailymail.co.uk/news/article-2605578/Edward-Lucas-I-hope-Im-wrong-historians-look-say-start-World-War-III.html>

21 <http://en.ria.ru/russia/20070201/60044654.html>

In view of this, the following objectives were set:

- analyse the importance of fossil fuels in today's economy and define the concept of energy security;
- examine the role of energy in foreign policy and analyse the historical context of the use of energy as a weapon;
- Summarize the structure of Russian energy sector (history, data, reserves, pipelines and companies);
- evaluate the transformation of Russia after the downfall of the Soviet Union and its resurgence due to gas revenues and Putin's policy;
- Analyse the stick and carrots policy as a heritage of the Soviet period and its roots in the Russian politics;
- Compare different perceptions about energy weapon: energy coercion or economic profit maximization?
- Appraise the effectiveness of the energy leverage within an historical overview and estimate the effectiveness of the policy, given the heavy dependence on oil and gas exports;

The thesis sources could be divided in these groups:

1. Researches, reports and articles covering different aspects and periods of Russian energy foreign policy. Undoubtedly, the work of J. Perovic, R.W. Orttung and A. Wenger “ *Russian Energy Power and Foreign Relations*”, covering the international implications for conflict and cooperation, is a particularly detailed and comprehensive research. The book “ *Well-oiled Diplomacy*” by Adam Stulbeg offers a new way of thinking statecraft theory into the study of globalization, broadening the analysis of international coercion to world energy markets and distribution networks. Finally “ *Red Gas*” by Peter Hogselius reconstructs the background and nature of European dependency on Russian natural gas, bringing depth to a debate often monopolised by media.
2. Databases, statistical reports, law and official documents. Official documents of the European Union, Russia Federation, Ukraine, and other countries were used in this dissertation. The author analysed as well data on GDP per capita, world oil prices and oil and gas reserves retrieved from World Bank, EIA and British petroleum (BP);
3. First-source mass media material, providing the factual basis for up-to-date events connected with the Russian foreign policy and the use of gas as a weapon. This section contains most of all articles from International and Russia printed media. Among them, there are reports from BBC, The New York Times, The Economist, Rossijskaja Gazeta, Foreign Affairs and Foreign Policy;

4. Information on energy strategy and policy provided by official website of ministries of energy, ministries of foreign affairs, oil and gas companies of Russian Federation and main transit states;

The thesis consists of introduction, four chapters, and bibliography.

The first chapter “Energy and Politics ” examines the role of fossil fuels in today's economies and international relations. The second chapter “Russia, the energy power from the origins up to Putin” analyses the evolution from the Soviet collapse up until today. The third chapter “ Analysis of the Russian energy card” deepens the roots and the perceptions of the gas weapon. Finally, the fourth chapter “Case study: Ukraine” examines the specific cases of supposed “energy weapon” in Ukraine.

Chapter I:

Energy and politics.

This chapter wants to give a brief but concise overview about the importance of energy in our times and why and how it can be deployed as a weapon in the hands of governments. Since energy is a strategic commodity not only for economics, but also for the stability of financial markets, the national security and the climate change, dynamics in the global energy market affect the nature of international relations. Hence, nowadays energetic issue is at the top of global agenda.

Ever since the Industrial Revolution took off in Great Britain the 18th century and then spread to Europe and United States, vast quantities of fossil fuels have been used to power the economies worldwide. Since the revolution, the world has used a vast amount of energy. In particular four sectors are energy-intensive: industrial, residential, commercial and transportation infrastructure; of course the energy distribution to each sector varies across countries. The trend in developed countries, is to allocate more energy to industrial and transportation sectors, whereas less developed allocate more to domestic uses.

The question, that involves all countries, is that most of the primary energy sources used today are non-renewable. About 85% of all energy produced and consumed stems from finite supplies of fossil-fuel primary energy sources. Only the remaining 15% of energy is derived from nuclear and renewable sources. Non-renewable energy sources are those that become depleted with use and cannot be

replenished within a long period of time. Fossil fuels and nuclear belong to non-renewable sources²² .

According to the definition of the U.S. Department of Energy, fossil fuels are “non-renewable resources that formed when prehistoric plants and animals died and were gradually buried by layers of rock. Over millions of year, different types of fossil fuels formed- depending on what combination of organic matter was present, how long it was buried and what temperature and pressure conditions existed as time passed”²³ .

The three major fossil fuels are coal, oil and natural gas. These fuels offer highly concentrated chemical energy neatly stored in solid, liquid and gaseous forms, making them applicable to any energy application: electricity, transport and heating. During the Industrial Revolution coal was used to manufacture goods and to power steamboats and railroad engines. Later on, Thomas Edison builds the first practical coal-fired electric generating station then coal becomes the major fuel used by electricity utilities to generate electricity.

Petroleum is a mixture of hundreds of different hydrocarbons molecules containing hydrogen and carbon that exist sometimes as a liquid (crude oil) and sometimes as a vapour (natural gas). Because of the complexity of its composition, refining is necessary for getting it into useable form. Once extracted (referred as upstream activity) by drilling and pumping, oil is transported to refinery where is transformed in gasoline, kerosene and other commodities (downstream activity).

Historically, the development of drilling technology for oil wells in mid -19th century dramatically enhanced the extraction. Oil was at the heart of the post World War II economic expansion.

22 J.L. Moan, Z.A. Smith, “*Energy Use Worldwide: A Reference Handbook*” , ABC-CLIO, 2007, p.8 .

23 U.S. Department of Energy, available at <<http://energy.gov/science-innovation/energy-sources/fossil>>

Today oil is one of the most important resources in the economies of the industrialized countries. It is an extensively used raw material and an important factor for transport and the agricultural sector. The petrochemical sector would collapse without oil supply and, so far, no replacement is in sight. In particular, the agricultural sector has become energy-intensive in every aspect: farm machinery depends on gasoline, fertilizer production needs natural gas, pesticides are synthesized from oil. The largest reserves of oil are found in the Middle East.

During the first half of the 20th century, oil production and supply were mostly controlled by seven oil companies from Europe and U.S., the “Seven Sisters”²⁴. They controlled around 85 per cent of the world's petroleum reserves. Though, the wave of nationalization that took place in the 1970s, entirely changed oil production structure. Today, over 75 per cent of oil reserves are in the hands of national oil companies. This greatly influences investment and production trends and increases the interplay between oil and international relations.

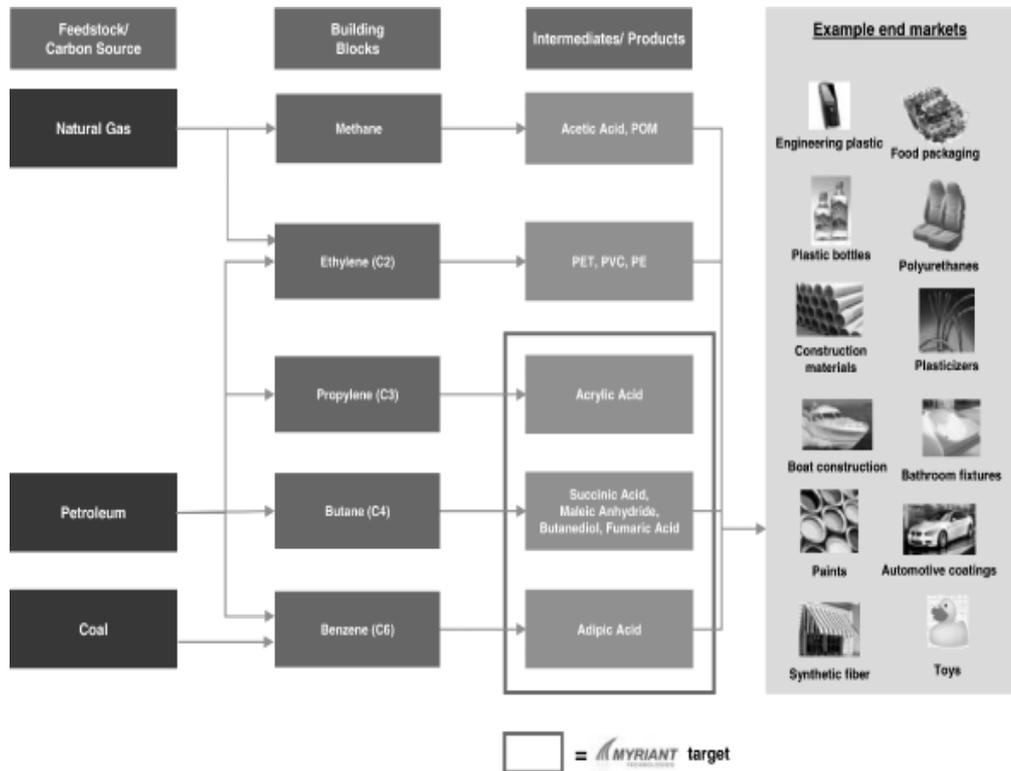
Concerning natural gas, it is extracted from the surface drilling a well and then it is piped to areas of use, through a pipeline. Otherwise the gas can be compressed into liquefied natural gas (LNG). This alternative method is useful to reduce the volume of the gas, which will be re-gasified when it reaches the destination. Natural gas is the least consumed of all the fossil fuels, however, its consumption is constantly growing. Natural gas is especially attractive because it releases significantly lower emissions that causes air pollution and lead to climate change.

The twentieth century saw a rapid twentyfold increase in the consumption of fossil fuels and the beginning of what Yergin labeled the “hydrocarbon man”²⁵ era. Fossil fuels power our lifestyle and drive nation's economy and their adoption made

24 The term was coined in the 1950's by Enrico Mattei, the then head of Italian state oil company Eni. The Seven Sisters were the Anglo-Persian Oil Company (now BP), the Gulf Oil, the Standard Oil of California, the Texaco (now Chevron), the Royal Dutch Shell, the Standard Oil of New Jersey (ESSO) and Standard Oil Company of New York (now ExxonMobil).

25 D. Yergin, *The Prize: The Epic Quest for Oil, Money and Power*, Free Press, 2008, p.541.

humans modern ²⁶. Without access to the latent energy of fossil fuels, the current age of industrialization would never have been possible. Harnessing ever greater quantities of fossil fuels over the last three centuries for industry, transportation, and electricity has allows for unprecedented growth in the world economy.



(Image retrieved from:
<http://www.sec.gov/Archives/edgar/data/1485026/000095012311069003/b86680a3sv1za.htm>)

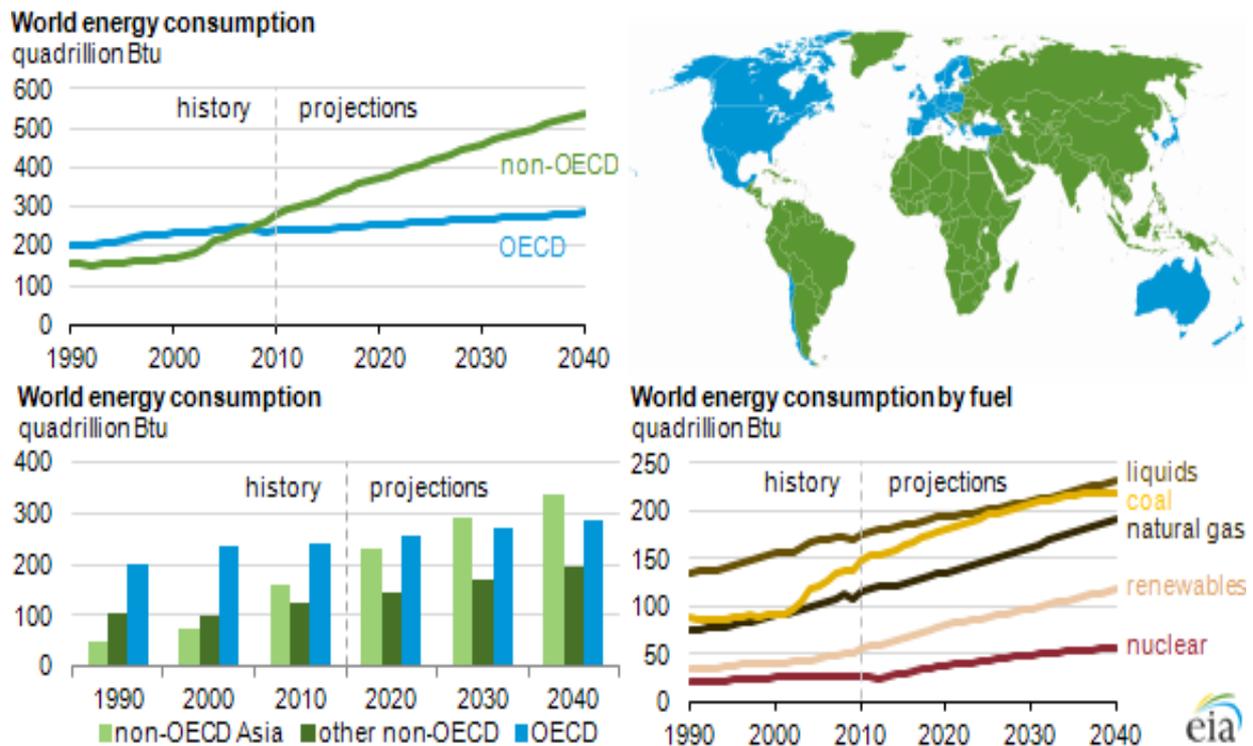
Between 1980 and 2006, the worldwide annual growth of consumption rate was 2%²⁷.

According to BP Statistical Review of World Energy 2014, global primary energy

²⁶ D. Christian, “*Maps of Time*”, Berkeley, University of California Press, 2005.

²⁷ http://en.wikipedia.org/wiki/World_energy_consumption

(oil, coal and natural gas) consumption increased by 2,3% in 2013. Moreover the overall global consumption is forecast to rise by over 50% during the medium term.



(Image retrieved from :<http://www.eia.gov/todayinenergy/detail.cfm?id=12251>)

Those states that are currently responsible for the majority of the world's energy consumption (North America, Europe, East Asia and Australasia) are set to increase their consumption by almost 20% by 2030, as economic growth leads to sustained increases in energy demand²⁸.

Demand for energy use is growing and will continue to grow in future, whilst it is not at all clear that reliable and stable sources of supply will continue to keep pace. This leads to a widening energy gap, which exacerbates concerns amongst governments: according to Micheal Klare²⁹ the gap leads to a breakdown in cooperation and to a geopolitical rivalry between the main players.

28 D. Stokes, S. Raphael, "Global Energy Security and American Hegemony", The Johns Hopkins University Press, 2010, p. 47.

29 M. T. Klare, "The race for What's Left: The Global Scramble for the World's Last Resources", Metropolitan Books, 2012.

Although most governmental and industry analyses have tended to forecast rises in oil, gas and coal production, these have usually been based in a scarcity of hard data, and a tendency of oil-rich countries and oil companies to overstate the size of reserves in their possession³⁰.

In addition to this, forecasts for supply are controversial because of the geological condition of fossil fuels as they are usually located deep in the soil, offshore or in polar regions. Besides, there is a significant disagreement and confusion among various forecasts: the most important swing factor is the category of non-conventional oil. Some estimates separate conventional oil and non-conventional; others aggregate data³¹.

Equally important is the fact that, strategic resources are unevenly distributed across the globe, located strategically in the palms of few - as we can see on the map. Uneven geographical distribution of resources means that some nations are dominated by resource production, while others have none. More than 90% of proven oil reserves are in just 15 countries³².

30 A. Collins, *“Contemporary Security Studies”*, Oxford University Press, 2010, p. 378.

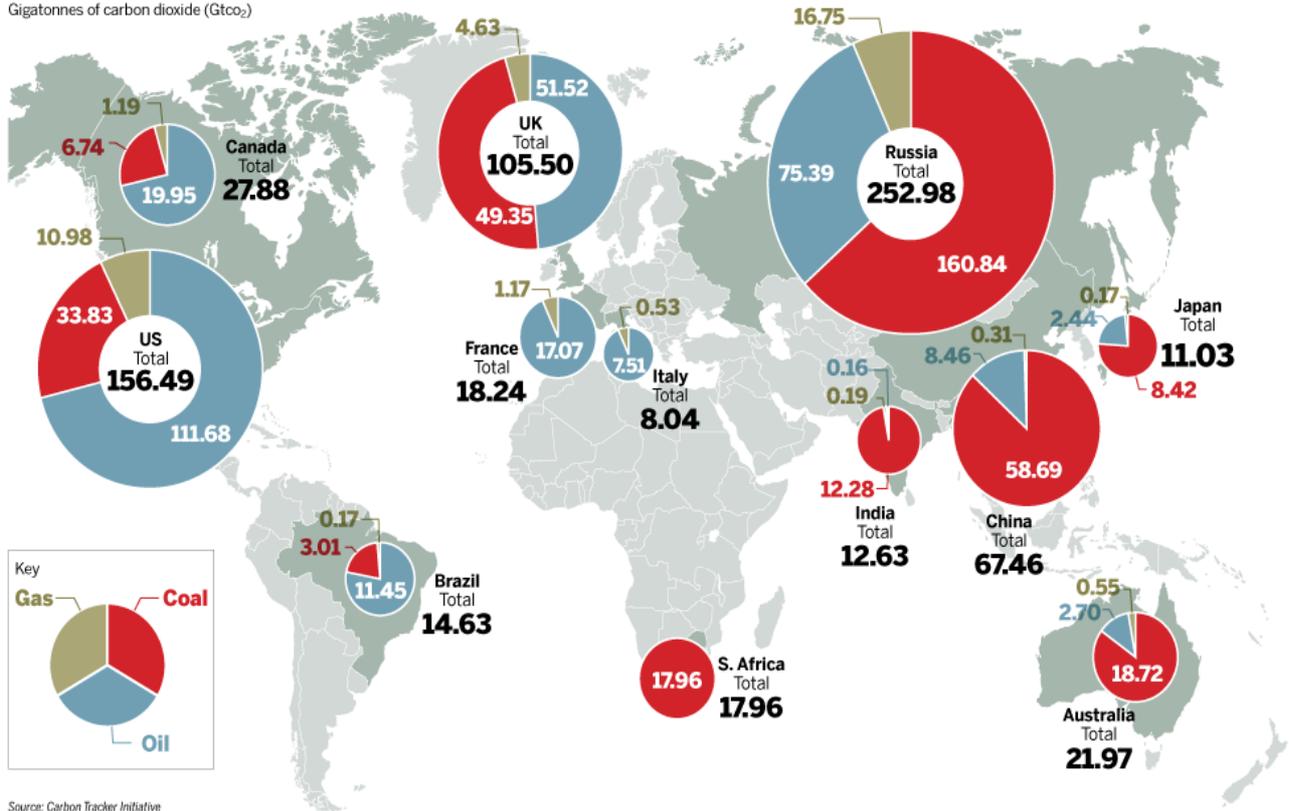
31 S. Peters, *“Building Up the Potential for Future Resource Conflict: the shortcomings of Western response strategies to new energy vulnerabilities”*, European University Institute, p.11

32 *“Black gold billionaires- the 10 biggest oil producing countries”*, Offshore Technology, 3 March 2014, available at<<http://www.offshore-technology.com/features/featureblack-gold-billionaires---the-10-biggest-oil-producing-countries-4186441/>>

Burning issue

Distribution of company fossil fuel reserves according to place of listing

Gigatonnes of carbon dioxide (GtCO₂)



Source: Carbon Tracker Initiative

(Image retrieved from: <http://www.ft.com/intl/cms/s/0/73fedbf2-6af2-11e2-9871-00144feab49a.html#axzz3D1rOVieL>)

Historically, this imbalanced distribution of reserves doesn't match with the regions representing the biggest demand for these energies carriers.

So, the world is divided in export and import countries. Almost every powerful state in the world politics (with the exception of Russia, Canada, an the UK) requires large volumes of imported oil to sustain the demand from its domestic economies.

By and large, those countries which consume the most energy do not have sufficient domestic supplies to meet their demand. The United States, China and India need to import over half of their oil requirements, whereas Germany and Italy are almost wholly dependent on foreign hydrocarbons imports³³.

Ensuring that enough oil keeps on flowing is a priority for consuming states.

33 D. Stokes, S. Raphael, "Global Energy Security and American Hegemony", The Johns Hopkins University Press, 2010.

Therefore, oil and gas are the world's most important and valuable commodities and constitute a major source of income for the governments and corporations that control their production and distribution. As far as we live in an energy-centric world, the control over oil and gas resources may turn into geopolitical clout for some, as Zakaria claimed “countries endowed with natural resources, especially petroleum and natural gas, get free rides³⁴” ; whereas, into economic vulnerability for others.

Finally, whereas in the past decades military power was almost unanimously considered the main characteristic to determine a country's world ranking, today the importance of armies is slowing being eroded by the copiousness of energy reserves. Thus, countries that by geographical and economic dimension would not be particularly influential in the world equilibrium can now count as states which, even though developed, are highly dependable on external energy sources. Of course elite-states have tried to obtain energy suppliers' resources in various ways, such as political concessions and military assistance. This is a clear signal that shows the increasingly leverage provided by the ownership of energy resources.

Given this energy sector overview, the rise in demand, the fear of dwindling supplies, the uneven distribution, the utmost salience for industry and development, access and control of energy resources is a key ingredient of national power and national interest. Therefore all states are concerned over the quantity and the reliability of their energy supply, and this paves the way to the field of studies underlying the field of “energy security”.

34 Freed Zakaria, “*The Post American World*”, N.Y Norton 2011, p.31.

Energy security

Energy security is maintained by strategic planning to ensure diversity of fuel, diversity of supply source and efficiency and flexibility in the energy sector. Defining threats to energy security, however, is more difficult, since it is a wide-ranging concept covering many aspects, such as access to fuel, safe transit and protection of resources and their environment. Defining energy security more clearly is also complicated by the variety of views. Sovacool³⁵ lists alone 45 definitions of energy security. It means protecting against politically induced disruptions or technically induced supply problems, but also it is facing the challenges of terrorism and global warming.

Here the most assented explanations:

- Energy security is assurance of the ability to access energy resources required for the continued development of national power”, more specifically “it is the provision of affordable, reliable, diverse, and ample supplies of oil and gas (and their future equivalents) and adequate infrastructure to deliver these supplies to market”³⁶;
- Energy security is “the uninterrupted physical availability [of energy supplies] at a price which is affordable, while respecting environmental concerns”³⁷;

35 B.K. Sovacool, “*Energy Security*”, Sage Publications, 2014.

36 J.H. Kalicki, D.L. Goldwyn, “*Energy and Security: Toward a New Foreign Policy Strategy*”, Woodrow Wilson Center Press, 2005.

37 International Energy Agency, “*What is Energy Security?*”, available at <http://www.iea.org/topics/energysecurity/subtopics/whatisenergysecurity/>

- “[Energy security] is described as the assured delivery of adequate supplies of affordable energy to meet a state’s vital requirements, even in times of international crisis or conflict”³⁸;

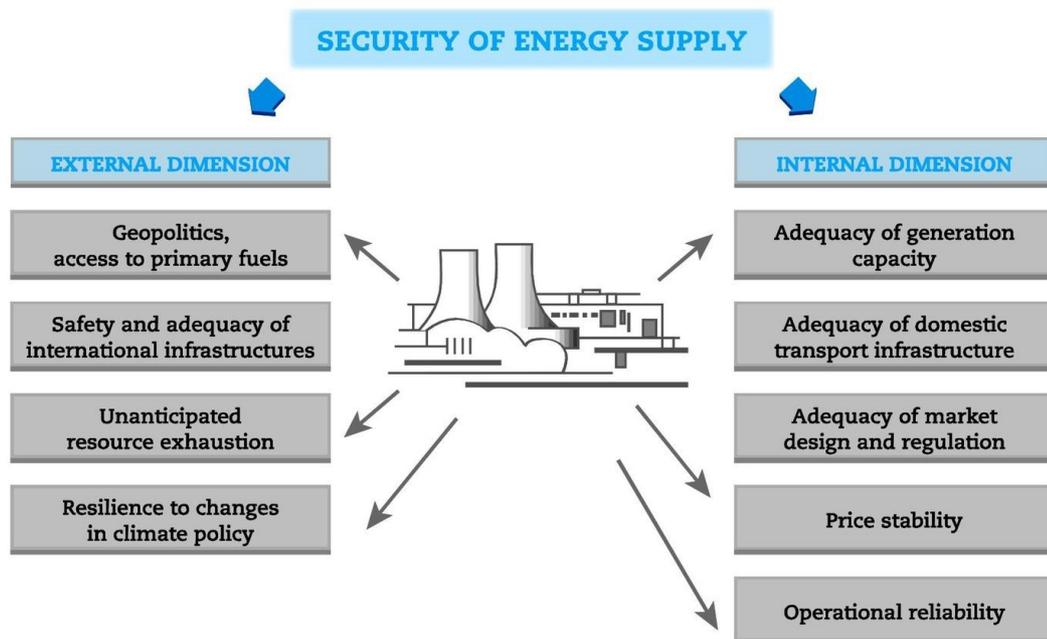
Energy security has long had a different meaning depending on the perspective: the perception of this concept varies widely between producer, consumer and transit states. While consumer nations are interested in security of supply, producer states are logically targeted at security of demand from foreign markets.

Despite the differences, they all include the idea of avoiding sudden changes and risks such as interruptions, severe weather, terrorist attacks and technical failures.

According to Daniel Yergin³⁹, energy security has ten key principles of importance: the diversification of supply sources, the stability of the global energy market, the spare capacity (e.g., strategic petroleum reserves), the flexibility of markets and avoidance of micromanaging, the awareness of mutual interdependence among companies and governments at all levels, building relations between exporters and importers in recognition of mutual dependence, a proactive security framework that involves both producers and consumers, a well-informed public, a healthy, technology-driven energy industry and a commitment to research, development and innovation across a broad spectrum.

38 M.T. Klare, “*Energy Security*” in P.D. Williams, “*Security Studies: An Introduction*”, Routledge, 2008, p.484.

39 D. Yergin, “*Ensuring Energy Security*”, Foreign Affairs, March-April 2006. Web. Retrieved from: <http://www.foreignaffairs.com/articles/61510/daniel-yergin/ensuring-energy-security>.



(image retrieved from http://bibliothec.immateriel.fr/fr/read_book/9789264096349/e9789264096349_c01#int_4)

Therefore energy security is a multidimensional concept, including four major components: availability (geology), availability at acceptable price (economics), socially acceptable (environment) and politically accessible (geo-policy).

Apart from being a critical factor (energy power) that defined the overall power-status of a nation, energy security policy as a form of statecraft has always been a powerful foreign policy-making instrument, which has been proven to be – under specific conditions - much more effective than the use of force or the threat of the use of force in enticing or coercing a state to “do something he would not otherwise do”⁴⁰.

40 D. Baldwin, “*Power Analysis and World Politics: New Trends Versus Old Tendencies*”, World Politics, Vol. 31, 1979, p.163. Available at <[http://www.princeton.edu/~dbaldwin/selected%20articles/Baldwin%20\(1979\)%20Power%20Analysis%20and%20World%20Politics.pdf](http://www.princeton.edu/~dbaldwin/selected%20articles/Baldwin%20(1979)%20Power%20Analysis%20and%20World%20Politics.pdf)>

Energy and international politics

Before analysing energy as an element of foreign policy and source of power, it's important to realize the fact that there is a profusion of theoretical approaches regarding energy in international relations. In particular, two approaches emerged in the literary review: one group of paradigms reflects geopolitical concepts of political power (realism), whereas the other analytical method's perspective is influenced by economic policy (liberalism).

Realism assumes that the main goal pursued by the states is to struggle for power-maximization and conquest. According to realism, in a situation where the international system is perceived as hostile, states use self-help methods, including energy. The focus of the realist analysis is on states and states actors who are considered to be rational actors, interested in increasing their energy power capabilities and security. Energy is considered to be a vital component of the balance of power games⁴¹ and a key ingredient of national power and interest⁴². In this light, geopolitical tensions among the major powers are highly probable.

Regarding liberalism, liberal theory's pivotal values are freedom, democracy and the belief that the state is a representative institution of different social actors. In terms of international energy politics, the liberal approach believes that the interconnected nature of global economy ensures that all core powers have the same interests in maintaining the conditions under which this market operates; hence, conflict over energy reserves is highly unlikely.

In the book "*Energy politics*", Brenda Shaffer analyses the relationship between energy and politics. First of all, the linkage between natural resources and power is deep-rooted in history. For example in the sixteenth to twentieth centuries,

41 M.T. Klare, "*Rising Powers, Shrinking Planet*", Metropolitan Books, 2008.

42 R. Dannreuther, "*International Relations Theories: Energy, Minerals and Conflict*", Polinares, 2010, available at http://www.polinares.eu/docs/d1-1/polinares_wp1_ir_theories.pdf

European nations colonized countries of Africa, Middle East and Latin America in search of energy resources, especially oil, coal and natural gas. Hence, from time immemorial energy fostered expansion, caused inter-state wars and conflicts and produced geopolitical structures of power, trade and war.⁴³ Some of the major events of the 20th century like the German invasion of Baku during the World War I, Japan's assault of the Pearl Harbour during World War II, the Suez crisis in 1956, the global crisis of 1973, protracted Iran- Iraq war and Iraqi invasion of Kuwait are some of the events that confirm how energy has shaped the nature of global politics in the past century⁴⁴ .

Secondly, this relationship is mutual: resources can be both source and effect of power. Today resources are an element of policy on the same level as military power and economic development, then governments at times employ them as instrument to exert political pressure. In fact according to Hans Morgenthau, hard power is an important factor for any nation to be strong in international politics.

Hans Morgenthau listed followings elements which compose the elements of hard power: “geography, natural resources, industry capacity, military capacity, population, national identity and moral power, qualified diplomacy and state”. Hence Morgenthau considers energy factor as a main element of hard power and the most effective factor to determine the political power of states.

Energy use influences the structure of the international system: due to the highly interdependent global resource trade, each country's demand affects the price and supply availability of all oil consumers.

Moreover, under the tight conditions of oil market, political instability in an oil exporter or in a transit state can have international consequences.

43 A. Hadfield, “*Energy and Foreign Policy: EU-Russia energy dynamics*”, in S. Smith, A. Hadfield, T. Dunne, “*Foreign Policy :Theories, Actors, Cases.*” Oxford University Press, 2008, p.22.

44 D. Yergin, “*Ensuring Energy Security*”, Foreign Affairs, March-April 2006.

Energy as a political tool : history of energy weapon

Analysing the historical background of energy as a political tool means to analyse the use of oil as a political lever. In fact oil was throughout the twentieth century the main provider of energy. The shift to more efficient sources of fossil fuels, mainly natural gas, happened in this century. The problem with gas was its gaseous form: it could be used just as it came out of the ground, hence natural gas was often valued as a nuisance. Hence, oil was the preferred fuel because it was amply available, easy and cheap to transport. Thus, the early energy weapons were linked with oil.

In the last century in fact, oil was considered “ the only commodity whose sudden cutoff would have drastic effect on national welfare or on economic activity”⁴⁵ .

For some historians, it all begun with a decision that shaped the 20th century history.

In 1911, Churchill decided that the British Navy must switch from using coal to petroleum. The advantages in greater speed and manoeuvring the British Navy would gain, were able to justify the change from the easily accessible and politically secure coal from Wales to the unsteady Iranian oil.

The commitment to oil meant indeed “to take arms against a sea of troubles”⁴⁶ .

According to Hanns Maull's⁴⁷ definition, “oil weapon” refers to “any manipulation of the supply and/or price of oil by exporting nations with the intention of changing the political behaviour of the consumer nations”.

Historically, the use of oil supply disruption as a tool of political influence went in

45 Richard H. Ullman, “*Redefining Security*,” The MIT Press, *International Security* , Vol. 8, No. 1, Summer, 1983, p. 144.

46 D. Yergin, “*The Prize: The Epic Quest for Oil, Money and Power*”, Free Press, 1993, introduction.

47 Maull Hanns, “*Oil and Influence: The Oil Weapon Examined*”, London: International Institute for Strategic Studies, 1975.

one direction: the suppliers cut shipments to the consumers. The concept of oil weapon emerged as early as 1935-1936 during League of Nations deliberations over possibly sanctions against Italy (oil embargo). Eventually the sanctions were not implemented, as they were judge infeasible without mobilizing an outright blockade of Italy.

As a second early example of the “oil weapon”, Stern points to the United States embargo imposed on Japan over its occupation of China in 1941. Due to the fact that 80% of Japan's supply of oil came from the U.S. and the vulnerability of supply routes, in this occasion the oil weapon worked. Hence, if an importer's supply routes are vulnerable or if a single exporter can deny most most supply, the oil weapon “has power”.

Of course, the utmost affair about oil weapon is the OPEC countries embargo of 1973-1974. An event, that according to Kissinger “altered irrevocably the world as it had grown up in the postwar period”.

The oil embargo was imposed on the U.S, Denmark and the Netherlands for their support for Israel during the 1973 Arab-Israeli war. Several Arab countries used the embargo and production cuts that started two days earlier to pressure the U.S. to adopt an even-handed policy toward the Arab-Israeli conflict: the goal was the Israeli withdraw to the 1967 borders. On March 18, 1974, less than six months after it was imposed, the embargo was lifted because of multiple disagreements between sender states. Although the embargo led to a mere 5% decrease in world oil supply and effectively lasted only two months, crude oil prices quadrupled during that period, radically unsettling Western economies and hurting consumers⁴⁸.

The 1973 year is widely acknowledge as an economic watershed, a time when OPEC embargo leads to high inflation and recession in Western economies. In addition, it marks the beginning of the declining leverage of the U.S and European oil companies (“Seven Sisters”).

48 C.J. Cleveland, “*Concise Encyclopedia of the History of Energy*”, Elsevier Inc, 2009, p.216.

From then onwards, national oil companies of the exporting countries assumed the power lost by the major oil companies. Thus the producers, not the consumers or the international oil companies, now decide how much oil is produced and the terms on which it is supplied to consumers. The producing nations have become refiners and even distributors of refined products, presenting a new arena for conflict with consumers.

After a complete nationalization of oil industries and the end of the era of concessionary practice, an oligopoly of Third World owned two thirds of the world's exploitable reserves, almost 50% of its production and its surplus capacity. Consequently, that oligopoly also controlled the market's pricing mechanisms and was in a position to dictate the world oil price for nearly a decade.

Amongst politicians and intellectuals, the oil crisis was represented as a great geopolitical confrontation between the United States and Europe and the rising power of OPEC and oil producing countries.

Through OPEC, the producers give all developing countries a model for exerting economic and political pressure on industrial countries through the control of critical resources. The success of the effort is less important than the attempt itself. In fact, Harvard University's Rosemary Kalenic insisted that there are no example in history in which oil was successfully used as an instrument of coercion, because the global market for oil is structured to harden the difficulties of imposing economic sanctions⁴⁹ .

Despite the failure, the use by OPEC of what was called the “oil weapon” seemed to overturn the many centuries of Euro-American global supremacy.

As Golden says “The Arabs play a special mixture of politics and economics”⁵⁰ and it was their use of a vital commodity to advance political goals that marked the idea of the “oil weapon”. This weapon can be “stronger than armies”⁵¹ .

49 R. Kelanic, “*Comments on the impact of Fossil Fuels on Security*”, Religh, NC: Triangle Institute for Security Studies, 2011.

50 Golden, S. “Op-ED: Oil and the Economy: No Great Spur Seen in Arab Action, but Output and Prices are Factors” *New York Times*, 15 March, 1974, p. 43.

51 William J. Ryan, “‘Oil Weapon’ of Arabs Stronger than Armies”, *Abilene Reporter News*, November 23, 1973, p. 10.

From the early 1970s onwards, the policy of stimulating investments in “safe” areas and reducing import vulnerability by diversifying away from Middle East and OPEC imports becomes pivotal to all importers states.

The 1973 turmoil gives rise to strong concerns about oil security. This concept first gains prominence following the embargo, since before this, a reliable flow of oil from the region was taken for granted and threats to oil suppliers were few and far between.

If the developed economies in the 19th century were fuelled by coal, and in the 20th century by oil, the 21st century comes with great promise for natural gas. The world’s energy markets are experiencing a rapid transition to gas that will incontrovertibly redefine the way we look at the scarcity of natural gas in the contemporary security environment ⁵².

Today natural gas is the world's third leading energy source in terms of consumption and production, and it is expected to replace coal as the number one fuel for generating electric power in the next future⁵³ . Growing dependence on natural gas deepens the concerns as it has been wrongly assumed that “locations of gas reserves are more diversified regionally than oil”⁵⁴. A.M. Jaffe and R. Soligo claims that gas market is provided with a higher security of supply, due to the geographical dislocation of reserves. The two main areas of gas reserves are Russia and the Middle East. Political disturbances will have therefore smaller effect on gas markets. The fact that most reserves are located in Russia is important for geographic diversification and stability for world gas markets.

Middle East and Russia are not contiguous, potentially destabilizing incidents in the two countries are unlikely to be correlated.

52 Bremmer, “*The end of the Free Market*”, New York,Penguin Group, 2010, p.107.

53 *Ibid.*, p.5

54 D.G.Victor, A.M. Jaffe, M.H. Hayes, “*Natural gas and geopolitics from 1970 to 2040*” ,Cambridge University Press, 2006. p. 445.

Given its strategic importance, natural gas can serve as effective unilateral instrument of state power. In 2006, the U.S. Sen. Foreign Relations Committee Chairman Dick Lugar in a keynote before the Nato Summit in Latvia, said: “Natural gas will be the currency through which energy-rich countries leverage their interests against import dependent nations. The use of energy as an overt weapon is not a theoretical threat of the future; it is happening now⁵⁵”. The speech referred to Russia, as in 2006, the gas dispute between Ukraine and Russia gave rise to Western fears of energy weapon, as analysed in the third chapter.

The nub of the question is the transportation system of gas, the pipelines and its lack of flexibility. Unilateral sanctions are effective if the sender has a monopoly on the supply by the web of pipelines. In this way the target country has no possibility to dodge the sanctions.

This is what happened between Russia and Eastern Europe. Given the scarcity of domestic reserves of natural gas and its growing demand, Europe is highly dependent on Russian natural gas imports.

Moreover, dependency on Russian gas by pipeline is expected to rise because a forecasted decrease in domestic gas production, and an estimated increase in consumption of gas. In a in-depth study of European Energy Security, led by the European Commission and published on the 2nd July 2014, natural gas total demand is projected with a growth rate of 65% by 2020 and of 73% by the 2030⁵⁶.

Therefore the dependency of Eastern and Central Europe on natural gas import from Russian Federation is of great concern, in particular for the United States as they see European countries consolidating Russia's monopoly on energy supplies. Consequently Western governments and analysts see Russia as endowed with a powerful instrument of political influence and coercion. The Kremlin is acutely

55 Dick Lugar, “Senator Lugar’s Keynote Speech to the German Marshall Fund Conference in Advance of the NATO Summit,” Riga, Latvia, November 27, 2006.

56 http://ec.europa.eu/energy/doc/20140528_energy_security_study.pdf p, 13.

aware of the overwhelming importance of energy, however Russian energy security also depends dramatically on European imports, and Putin wants to make sure Russian exports monopoly in Europe. The National Security Strategy⁵⁷ of the Russian Federation until 2020 is a document, signed by Medvedev, reports that the competition for energy resources might increase tension which could escalate into the use of military force near Russian borders and those of its allies.

57 The NSS is the overarching security document of Kremlin's internal and external security policy, available at <<http://www.scrf.gov.ru/documents/99.html>>

Chapter II:

Russia, the energy power from the origins up to Putin.

Subsoil resources have a long history in Russia. Since ancient time the civilization knew and used petroleum, but Russia was one of the earliest countries to produce oil, and by the end of the nineteenth century, it accounted for nearly a third of world's oil output. The following historical excursus provides with a historical overview of the development of the energy sector in the Russian continent. What happened from Peter The Great to the Soviet epoch systematically shaped the current structure of Russian energy sector. Hence, only looking carefully at the past, the recent choices made by political leaders in the energy sector can be fully comprehended.

The history of Russian oil production is inextricably linked to two geographical areas: Crimea and Azerbaijan. The origins lead to the Taman Peninsula (sited in Crimea) and the numerous surface outcrops of oil-bearing rocks there. In 965-966 this territory was named the Tmutarakan Principality. The oil was shipped to various regions and countries, including Byzantium.

It had long been known that the Baku region was rich in oil. Travellers, among which Marco Polo, had been struck by the permanent fires fuelled by natural sources of petroleum. There was a thriving trade in “*naphtha*”- the Russian word for petroleum- between the shores of the Caspian and the Far East. It was transported in goatskin by camel caravans. By 1594, an inhabitant of Absheron dug the first oil well to a depth of 35 metres⁵⁸.

From the 16th century, trading books began to include records of petroleum from the Absheron peninsula (Azerbaijan) : oil was brought to Moscow by Russian

58 International Association of Oil and Gas producers “*Setting Standards worldwide*” . Retreved from <<http://www.ogp.org.uk/news/1999/warm-welcome-for-ogp-in-baku/>>

traders from different lands. The books mentioned the oil-route: Shamakhy (Azerbaijan)-Astrakhan- and Volga trading centres.



Ancient fire-worshippers' temple on the Absheron Peninsula
Retrieved from http://en.wikipedia.org/wiki/Ateshgah_of_Baku

The turning point in the history of energy production, and in the economic growth of Russia came under the tsar Peter the Great (1672-1725). Not only did the Petrovian reforms massively modernise the country, but also the Tsar made the first attempts at the practical use of petroleum in Russia.

First of all, in 1700 he founded a Mining Department to supervise all activities in the development and exploitation of minerals. The aim was the development of petroleum sources within the country, focusing on the potentially oil-bearing territory between Terek and Sunzha rivers. Hence, the number of Russian enterprises and mining operations grew sharply. The Department was the ancestor of today Ministry of Natural Resources and Environment, and the Tsar created government bodies that exercised special functions of mining business regulation and set the mining legislative base.

Secondly, in 1719 the Tsar established the Mining Privilege, which was the key stage in the history of the development of mining legislation in Russia. This Decree declared all minerals the property of the Tsar, regardless of who owned the parcel of land. It established the right of hereditary ownership of plants, protect

industrialists from interference by the local administration, guarantee financial assistance and the right of free sale of smelted metal, and set the amount of compensation for discovered ore. In conclusion, Peter the Great consolidated the link between economics and politics, which is a cornerstone of Russian politics. Ever since the time of the Tsar, industrial growth has been a state-led project, with relatively small role for private enterprise.

When Peter the Great turned his attention to the Caspian region (strategic springboard for defence and trade) he had to wait for a pretext. When Afghan tribes attacked Persia, he militarily helped the then Shah. In gratitude for saving the country, Persia ceded western and southern parts of the Caspian coast, including cities of Derbent and Baku⁵⁹.

The fields of mining and metallurgy continued to grow progressively, and the renowned natural scientist Mikhail Lomonosov (1711-1765) made a solid contribution to the development of the scientific and industrial potential of the Russian Empire. In 1745, Feodor Pryadunov received permission to begin gathering oil seeping from the bed of the river Ukhta.

At that time, however, industrial quantities of oil and gas could not be produced for a variety of reasons. Due to the absence of data on the geologic structure of the Ukhta petroliferous area, wells were drilled only at fairly depleted sites of surface oil shows. At the same time, the manual method of drilling in hard rock did not permit workers to reach the main oil pay zones, which lay more than 325 feet underground.

In the second half of the nineteenth century, the abolition of the tax farming system

⁵⁹ M.W. Shoemaker, *“Russia and the Commonwealth of independent States 2014”*, Rowman & Littlefield, 2014, p. 219

paved the way for a capitalist form of industrial development. The system of ceding oil fields to tax farmers, who dictated price terms to producers, was an economic obstacle as it had prevented free competition in trade and favourable conditions for the discovery of new sources.

From then on, oil-bearing parcels of land were transferred to private hands at public auction for one-time fee. For the first time Russian oil industry was welcoming to individual and group entrepreneurship: all oil production was in private hands, and the owners adopted new drilling technology resulting in the initial expansion in oil output. The forms of business organization that existed at the time – individual and family businesses- were not well-suited to the changing economic environment.

Oil producers around the world could not help but react to Russia's appearance among the leading players on world markets with strong competitive countermeasures. However, Russia started to represent significant interest for foreign investors. The Nobel brothers and the Rothschild family played an important role in the development of oil exports in Baku. As a result, in the beginning of the 20th century Swedish, French and British firms accounted for as much as one-third of total Russian output and made a significant contribution to introducing new technology.

In addition to developing oil production on the Absheron Peninsula, the Russian government also undertook a series of measures to organize oil prospecting in other regions of the country. Engineers and several entrepreneurs begun a systematic geologic study of the Grozny region in the North of Caucasus- today capital of Chechnya. This area proved to be a boon for the Russian oil industry.

Later oil wells were drilled in several places: in Krasnodar Krai (Southern krai, between Crimea and the Sea of Azov), on the banks of the river Ukhta (Komi Republic) and in Cheleken peninsula (present-day Turkmenistan).

Finally, in 1880 a merchant discovered the oil spring in the island of Sakhalin, off the Pacific coast of Siberia.

The rapidly growing volume of oil and petroleum product exports from oil fields had already forced the Russian Empire to look for new means of transportation. The geographic remoteness of domestic oil production from the bulk of customers in Central Russia and the rest of the Russian territory required an effective transportation infrastructure. Railroads were not the best answer as a large part of the profit from the export went to the railroad's owners. Pumping crude oil and petroleum products through pipelines costs less than a half of what it costs to transport them by rail. The first pipeline was installed in 1878 in the Absheron peninsula and stretched from oil fields to the oil refinery. From 1897 to 1907 the longest pipeline in the world was built between Baku and Batum. It was 835 km long.

Regarding the history of gas in Russia, it is strictly linked with a name: Pyotr Sobolevsky. In 1811, he invented the thermal lamp- the first device for generating synthetic gas. Before him, gas was known, but not used extensively as a fuel source until the nineteenth century. The problem stem from the technical difficulties associated with transporting natural gas over long distances.

The first Russian company operating in natural gas recovery and consumption, called “Stavropol Partnership” was established in 1911. The company was founded for the study and the exploitation of subsoil resources. However the drilling were disappointing: there were nor oil nor gas at the depth reached. The disappointment along with the lack of additional funds put an end to further drilling operations.

The development of the Russian oil and gas industry in the late 19th and early 20th centuries was clearly on an upward track; the industry exhibited rapid rates of growth in oil production and refining, becoming essentially a world leader.

Volumes of Russian petroleum products exports to the world market grew steadily, despite crises in several countries in Europe, Asia, and the Far East.

Oil production in the early years of development of Russia's oil industry	
Year	Oil production, millions of tonnes per annum
1880	0.4
1886	1.9
1890	3.9
1896	7.1
1900	10.9
1910	11.3

(Retrieved from <http://bellona.org/news/uncategorized/2007-12-1-1-russias-oil-and-gas-industry-a-historical-review>)

The trade of petroleum products in the late 19th and early 20th centuries was clearly characterized by increased competition between the leading Russian oil companies and the American transnational corporation Standard Oil Company.

But there was a rapid deterioration in economic and social conditions in Russia, the Tsarist administration proving weak and inept.

The Soviet Oil and Gas Industry

In 1917 the Bolsheviks took power and overthrew the Tsar. During this period the Baku region was being shaken by strikes and unrest caused by the appalling working conditions of workmen. In the face of this situation many foreign investors decided to sell most of their interests.

The situation worsened when the Communists nationalized the entire oil industry: the production had dramatically fallen. Standard Oil Company protested the decision to nationalize the oil fields and refused to cooperate with the new Soviet government. But other companies invested in Russia. The continued inflow of Western funds helped Russian oil production to recover, and by 1923 oil exports had climbed back to their pre-revolutionary levels.

The output for year increased steadily and under the First Five Year Plan⁶⁰ (1928-32) it more than doubled. The nationalization of the fields and the policy of large-scale industrialization brought cohesion and a rational plan of development. Moreover substantial technical improvements have been effected.

Electrification and deep pumping are rapidly replacing the oil baling method of exploitation; rotary drilling and hermetic exploitation are now in general use, with a resultant great saving in gas and the lighter oils. For all these reasons, the production increased nearly 25 per cent in 1926-27. More production means more exports: oil exports for 1927-28 were nearly triple those of the year 1913. The growth not only was due to the increased production, but also to the fact that the present population of the U.S.S.R. was 18 per cent less than that of the former Russian Empire in 1912, plus the fact that the spread of electrification had cut down the domestic demand for kerosene. Italy was the leading country for Soviet oil exports, taking over 23 per cent of the total. France and England were next, each with about 19 per cent. At its peak, in 1932, the Soviet Union exported more petroleum than did the United States and probably more than anyone else in the

⁶⁰ Soviet economic practice of planing to augment agricultural and industrial output by designated quotas for a limited period of usually five years.

world. But to export that much, the Soviet Union had to divert 29 percent of its crude oil production from domestic use within Russia.

For purposes of production and communication problem between Moscow and the Caucasus, the chief oil committee authorized the creation of three local State Trusts, operating respectively in the fields of Baku, Grozny and Emba (northeast of the Caspian Sea in the direction of the Urals). Production during 1926-27 was divided among the different fields as follows (in metric tons):

Baku	6,893,000
Grozny	2,956,000
Etnba	252,000
Kuban	83,000
Total	10,184,000

With respect to natural oil reserves the Soviet Union occupies first place in the world. Solely during the four years of the war 34 new oil and gas fields were discovered. In 20 prewar years a total of 83 fields were discovered. During the World War II discovery was made and exploitation started of oil fields in the Devonian formations in Bashkiria, in the Samara bend, in the Molotov province. Oil fields were given to the country by the oil geologists of Dagestan (north Caucasus), Central Asia, Sakhalin, etc. The oil reserves of the Soviet Union have increased considerably. Declared the People's Commissar for the Oil Industry Nikolai Baibakov.

Soviet oil experts and geologists attach special importance to the fact that rich oil fields were discovered in this territory in the Devonian formation. The discovery was made in 1944, almost simultaneously in three places remote from each other: near Kuibyshev on the Volga, near Ufa in the middle Urals, and near Severokamsk in the northern Urals. The large amount of oil in this immense territory is also indicated by the recently prospected rich natural gas fields near Kuibyshev and

especially near Saratov.

The centre of Soviet oil production was the Caspian and North Caucasus, in particular Baku, on the western shore of the Caspian Sea, near the southern border of the Soviet Union: 2550 kilometres far away from Moscow. Baku remained the chief source of oil and where nearly two-thirds of Soviet oil field equipment was manufactured in the area until the Second World War. In fact Baku was one of Hitler's highest priorities: when the German troops reached Grozny, the oil fields were so badly damaged that Hitler was unable to derive much benefit from them. But in the process, he managed to deny their use to the Soviet. In addition, the Germans disrupted supply routes from Baku to the north so that the Soviet had a hard time maintaining their fuel supply.

But at the same time, Soviet planners began to expand oil industry in new areas, nearer to the centre of oil consumption. They accelerated development of the Volga-Ural region. Although exploration in the newer area predates the revolution, no oil was found there until 1929. In this area fields were close to transportation infrastructure and the geology was not particularly complex. Providentially more and more new fields were discovered in the Volga-Ural region: in 1944 major finds were made in Devonian formation. The output there rose rapidly and that area soon outproduced Baku area. By 1950 the new fields accounted for 45 per cent of whole production.

Fortunately when oil production from Volga-Ural regions dropped back, the slack was taken up by the opening of new areas in West Siberia. Although exploration for liquid energy in the region began before the Second World War, the first find occurred by accident in West Siberia in 1953. Whereas it took almost twenty years for the Volga-Ural fields to move from discovery to delivery to consumer, it took only eight years in the West Siberian. By 1970 production had reached 31 million

tons, and in 1977, about 210 million tons. The output in West Siberia seemed to compensate for the drop in productivity in the Volga-Ural fields in the late 1960s, just as the output in the Volga-Ural regions offset the declining output of Baku. So far, each time output in one major region slackened, the Soviets found a new region.

As said before the resumption of explorations of subsoil resources in the Soviet period allowed the discovery of the major energy basins in Russia. The strike of one of the biggest gas deposits date back to this period. In the 1950s Soviet geologists discovered the Stavropol basin and in 1956 the first pipeline was put in operation; a 1255 kilometre long pipeline linked Stavropol with Moscow⁶¹. Although the Soviet gas production began to develop as early as in the 1940s in the Ukrainian SSSR republic, large discoveries were made in the 1950s at several sites along the Volga river and in the Urals area. Afterwards, number of fields were found in Western Siberia in the 1960s: Orenburg and Yamal Peninsula deposits

By the early 1960s, the Soviet Union had replaced Venezuela as the second largest oil producer in the world. The surge in Soviet petroleum output and the corresponding increase in exports provided Soviet leaders with a particularly effective economic and foreign policy leverage. Soviet oil caused an overabundance of product on the market and a price cutting. The Soviets sold oil at a lower price in the third world, without insisting on hard currency payments as a way to gain influence. Most of these colonies in fact lacked sufficient hard convertible currency for their purchases in the traditional energy market⁶². This was an important form of economic support for the East European Communist as well as Cuba and most of former African and Asian colonies.

61 Matveichuk, "*Portent of the Gas Era*", Oil of Russia, Lukoil International Magazine available at <<http://www.oilru.com/or/49/1056/>>

62 Marshall I. Goldman, "*Petrostate: Putin, Power and the New Russia*", Oxford University Press, 2010, p. 44.

As a consequence, the so called “Seven Sisters”⁶³, whose first aim was to form a cartel and limit production and price cutting, wanted to keep Soviet petroleum out of world markets. In the same way, the Organization of Petroleum Exporting Countries (OPEC) was set up to prevent private oil companies from cutting the price of the petroleum they purchased from Saudi Arabia, Kuwait, Iraq, Iran and Venezuela. The original members of OPEC attempted to do this by regulating how much petroleum each of these countries could produce and by doing so reduce worldwide supplies. The majors were unable to combat the competition with lower prices, then the only recourse was trying to influence governments to prohibit or limit imports from the Soviet period. By refusing to go along with OPEC, the Soviet Union increased its political leverage as well as its earning power. The 1973 oil embargo imposed on the United States and several European countries provided the Soviets with a golden opportunity.

Before 1973, while it needed the earnings from oil exports to pay for its import, the world still regarded the Soviet Union as a spoiler, a price discounter, willing if not eager to cut petroleum prices and unsettle the capitalist companies. After 1973, energy consumer around the world came face to face with the realization that reliance on energy supplies from the Middle East involved enormous risks. Chastened by the Arab embargo, major importers of energy came to realized that it was in their interest to encourage as much energy production in the world from as many different producers as possible: the more supplies there were the better. By reducing the dependence on uncertain imports from the Middle East, they reduced also the chance of a political embargo by an OPEC-type organization against a single consumer or group of consumers. Therefore after the Yom Kippur war and the resulting embargo, the Soviets switched tactics and they tried to sustain prices at a level as high as possible to enhance the country's earning

⁶³ Seven Sisters is a phrase coined by Enrico Mattei, the then president of Eni, to describe the seven oil companies which controlled around 85 percent of world's petroleum reserves before 1973.

power.

In conclusion 1973 was a watershed in energy politics as it marks the loss of control over price by the major companies, the beginning of disintegration of the industry and the tripling of oil prices imposed by OPEC.

Notwithstanding the phenomenal production from fields in Western Siberia, the decline was just around the corner. Soviet planners gave priority to maximizing short-term rather than long-term recovery: there were no incentives to improve efficiency, scant investment in new technology and associations drilled too many wells and injected too much water.

By the middle of the 1970s, Moscow was already aware that a production decline was just around the corner. The first decline hit in 1977, caused by chronic underinvestment in exploration in Western Siberia, but authorities managed to reverse the decline by boosting spending on drilling. The second fall happened in the period between 1982 and 1986. This time too, Moscow managed to head off a crisis by injecting more cash.

In 1988, the Soviet Union hit a new record of some 11.4 million barrels per day. At this point, it was the largest producer in the world, with output significantly higher than in either the US or Saudi Arabia. It was also this year that output from Western Siberia peaked at 8.3 million b/d. But by that point, a sustained decline in production was inevitable - thanks to poor reservoir management techniques, the Soviet Union only managed to lift production marginally during the first part of the 1990s, despite a dramatic increase in capital expenditure. When it came, the collapse in production was as dramatic as the rise had been - Russian production fell continuously for a decade and ended up at almost half its original level.

Like the rest of the Soviet administrative-command economy, the oil and gas industry of the Soviet Union was managed in a highly centralized manner. The energy sector suffered because of the inefficiencies inflicted upon the Russian economy: the production of oil was based upon centralized planning, utilizing development programs with inefficient technology. Since the planning was done by the Ministry of Oil and Gas (Gosplan) it protected the production associations from competition, without incentive to operate efficiently. Secondly the profits were redistributed not in accordance to the source but towards political priorities (e.g. defence and military superiority during the Cold War). Finally the oil and gas industry did not receive much of the new investments or reinvestments funds. The government feared losing control of the country's strategic resources, hence it limited foreign investments. No foreign investments means no innovation: the Soviets did not allow the purchasing of foreign equipment, even if the Russian one was quite primitive and unable to sustain the level of production.

The timeline of the collapse of the Soviet Union can be traced to September 1985. On this date the Saudis stopped protecting oil prices, and with the increase of oil production in Saudi Arabia, oil prices collapsed. As a result, the Soviet Union lost approximately \$20 billion per year. The political leadership was unable to realize any solution, then decided to adopt a policy of disregarding the problem in hopes that it would somehow wither away. Neither perestroika nor glasnost (Gorbachev economic reforms) were enough to sustain the Soviet system: there was no hard currency to provide citizens with key public goods, especially food .

The Soviet Union started to borrow money from abroad while its international credit rating was still strong. It borrowed heavily from 1985 to 1988, but in 1989 the Soviet economy stalled completely. At the September 17, 1990, meeting of the

Council of Ministers, the chair of Gosplan (the state planning agency), explained,

“We understand that the only source of hard currency is, of course, the source of oil. . . . If we do not make all the necessary decisions now, next year may turn out to be beyond our worst nightmares. . . . As for the socialist countries⁶⁴, they may all end up in a most critical situation. All this will lead us to a veritable collapse, and not only us, but our whole system.”⁶⁵

In July 1991 Gorbachev sent a letter to the leaders of the G7 countries , asking to be included as a participant in an upcoming London meeting. The Western leaders accepted, but gave him no additional money. Even so, the total amount of debt assumed by the Soviet Union by that time had reached \$80 billion. In August 22, 1991, the story of the Soviet Union came to an end. The Commonwealth of the Independent States (CIS) was formed.

The Russian Federation government was faced with the grave consequence of the severe economic and sociopolitical crisis caused by the disruption of economic relations throughout the production chain and the collapse of the financial system. Furthermore, serious new problems were added to severe economic distortions; chronic lagging of agriculture, light industry and the food industry, an underdeveloped public service sector and over development of the military-industrial complex and heavy industry. By the 1992 the CIA estimated that the Soviet Union's gross domestic product (GDP) was about 10 per cent of the U.S. GDP.

Beginning in 1992, Russia's oil and natural gas production began to fall due to the

64 With the phrase “ Socialist countries” the Minister meant the fifteen socialist republics that made up the USSR, the CMEA member states and third world states such as Cuba, Vietnam and Mongolia.

65 Y. Gaidar , *“Collapse of an Empire: Lessons for Modern Russia”*, Brookings Institution Press, Washington, 2007.

overall reduction in the country's industrial production. The same old problems such as the depletion of major fields, the lack of fundings for geologic exploration, the shortage of high-performance technology and equipment for production and drilling made things worse. The government was forced to begin a radical reorganization of the oil industry, as the export revenues were needed to support nation's economy. The Russian Ministry of Fuel and Energy decided for the creation of major industry corporations.

President Yeltsin initiated the industry's privatization process in 1992 with the Decree 1403 “ *On Features of Privatization of State Enterprise, Production Associations, and Scientific Production Associations in the Oil and Refining Industry and Petroleum Product Supply and Conversion of These Entities to Joint-Stock Companies*” which divided oil-industry enterprises into three groups.

The first group included oil and gas production associations. Thirty-eight per cent interests in these joint-stock companies were restricted to federal ownership for three years and assigned to Rosneft (state enterprise) for administration. The second group included three vertically integrated oil companies: Lukoil, Yukos and Surgutneftegaz. They would become some of the largest companies in the world. The state would retain substantial ownership during a three-year transition period. Finally the third group included companies involved in the transportation of crude oil and petroleum products: Transneft and Transnefteprodukt. Forty-nine per cent interests were restricted to federal ownership for three years. Finally, Yeltsin authorized the conversion of Gazprom from a wholly state-owned joint stock company into a private joint stock company, whose shares could be owned by both the state (40 per cent) and private parties .

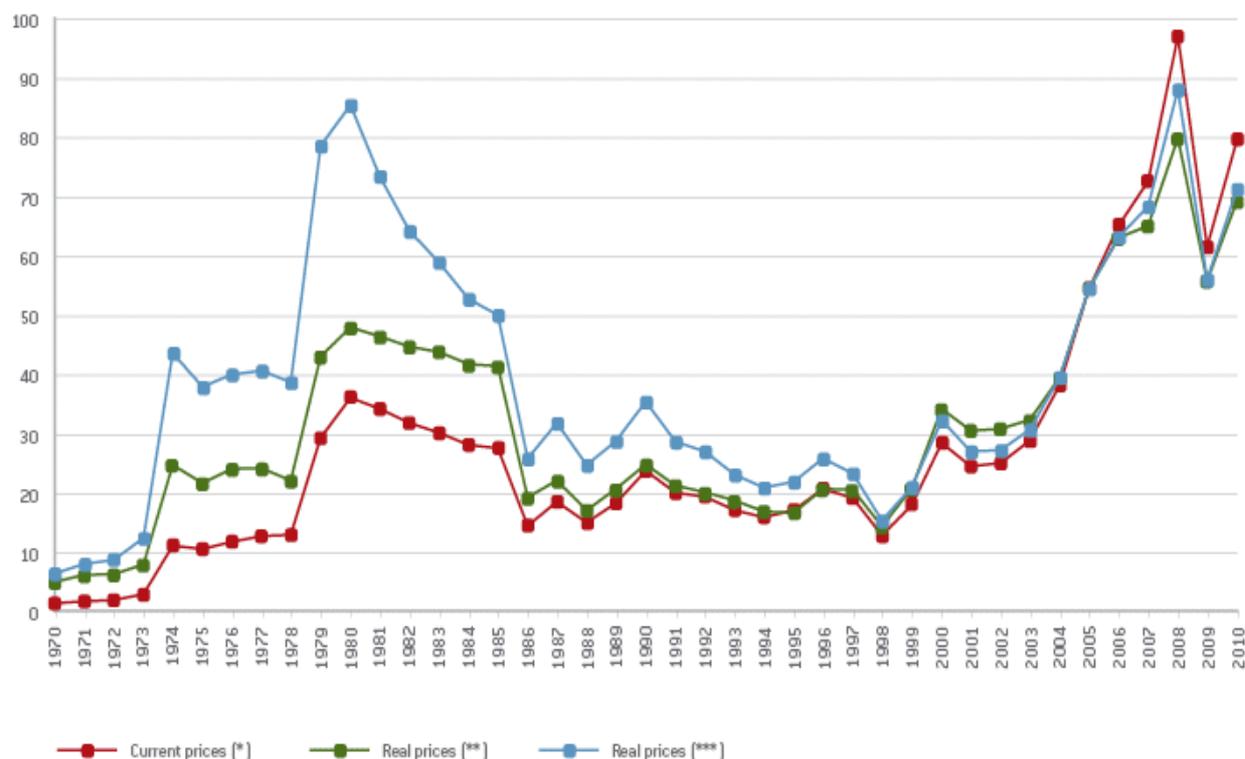
This rearrangement would have been hard under any circumstances, therefore the privatization process encountered a series of obstacles: first of all the lack of

capital market infrastructure, then the deteriorating macroeconomic situation. Furthermore competing gangs tried to take over whole swaths of the local economy of the oil towns (from the outdoor markets to the train stations). Almost all the new owners seemed more interested in stripping and sending assets outside the country. Capital flight from the country was taugth to be on the order of \$1 billion a month.

Such infighting did nothing to advance the interests of the state or petroleum production. For eight years oil production continued to decline. By 1998 it was about 60 per cent of what it had been at its peak. The last chance was to allow foreign companies to acquire an equity in Russian energy ventures. The Russian government signed three Production Sharing Agreements (PSA) with foreign companies. The PSA allows the oil company to recoup all of its costs before it has to share any profits with the state. These terms of contact, make it worthwhile for Western companies to tackle the very difficult working conditions and environment offshore near the island of Sakhalin and in northern Siberia. Of course Russian companies, such as Yukos, led the opposition to PSA concessions because they bred unfair competition. But with petroleum prices barely rising above \$ 10 a barrel in 1999 and output 40 per cent below its 1987 peak, the prospects for a recovery in petroleum and gas sector were not very rosy. Russia was forced to make concessions to obtain the help it needed. But sooner than might have been expected, the world economy began to recover. Led by an increase in commodity prices in southeastern Asia, where the recession began a year earlier, energy prices also began a quick recovery. By 2000, oil prices hit £ 33 a barrel, double what they had been only two years earlier.

Crude Oil Prices

(US\$/barrel)



Retrieved from http://www.eni.com/world-oil-gas-review/pages/oil_crude_oil_prices.html

The privatization process, following the collapse of the Soviet Union strongly shaped present-day Russian economic situation. The historical background help us to understand the seeds of the current economic state of Russian Federation. Throughout the czarist, Soviet and now modern periods, there have been sensational booms and catastrophic busts- since 1960, Russian oil production of crude oil has fluctuated markedly:



Source U.S. Energy Information Administration, 2012,
http://www.eia.gov/countries/img/charts_png/RS_pettop_img.png

Russia, an energy superpower

At the start of the new century, the industry rebounded and over the past decade Russian oil production has continued to migrate upward. Today Russian energy potential is vast. Russia ranks among the world's leading countries in terms of reserves, production and consumption in all the major categories of global primary energy sources: oil, natural gas and coal.

According to U.S. Energy Information Administration estimates, Russia is the second-largest (second to the United States) producer of natural gas and the third-largest (following the United States and Saudi Arabia) liquid fuels producer in the world.

Production*

Million tonnes	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change 2013 over 2012		2013 share of total
	2013	2012											
Norway	153.9	150.3	138.7	129.0	118.6	114.7	108.7	98.8	93.8	87.2	83.2	-4.4%	2.0%
Romania	5.9	5.7	5.4	5.0	4.7	4.7	4.5	4.3	4.2	4.0	4.1	4.0%	0.1%
Russian Federation	425.7	483.3	474.8	485.6	496.8	493.7	500.8	511.8	518.5	526.2	531.4	1.3%	12.9%
Turkmenistan	10.0	9.6	9.5	9.2	9.8	10.3	10.4	10.7	10.7	11.0	11.4	4.1%	0.3%

Oil production, BP Statistical Review of World Energy 2014, retrieved from: <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf>

Production*

Billion cubic metres	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change 2013 over 2012		2013 share of total
	2013	2012											
Norway	73.1	79.2	85.8	88.7	90.3	100.1	104.4	107.3	101.3	114.7	108.7	-5.0%	3.2%
Poland	4.0	4.4	4.3	4.3	4.3	4.1	4.1	4.1	4.3	4.3	4.2	-1.4%	0.1%
Romania	13.0	12.8	12.4	11.9	11.5	11.4	11.3	10.9	10.9	10.9	11.0	0.6%	0.3%
Russian Federation	561.6	573.3	580.1	595.2	582.1	601.8	527.7	588.9	607.0	592.3	604.8	2.4%	17.9%
Turkmenistan	53.5	52.8	57.0	60.4	65.4	66.1	36.4	42.4	59.5	62.3	62.3	0.4%	1.8%

Natural Gas production, BP Statistical Review of World Energy 2014, retrieved from: <http://www.bp.com/content/dam/bp/pdf/Energy-economics/statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf>

As seen in the tables, Russia holds the largest natural gas reserves in the world. Most of them are located in Western Siberia, between the Ural Mountains and the Central Siberian Plateau and in the Volga-Urals region, extending to the Caspian Sea. On the contrary, the Sakhalin group of fields in the Far East contributes only about 3% of Russia's total production. However, in the long term this basin may play a larger role.

Russian oil and gas producing areas are:

- The Western Siberia Basin: West Siberia is Russia's main oil producing region, accounting for 75 per cent of oil production and two thirds of oil reserves. The region includes more than 270 oil fields. In addition, Urnegoy is the largest gas field in the region and many are under way.
- The Urals-Volga Basin: located along Ural and Volga rivers, it has an area of around 70 million square kilometres. Even if it was the largest producing area during the Soviet period, today it accounts for about 22 per cent of Russia total output.
- Timan -Pechora Basin: still in the early stages of exploration, this basin is considered to have a great development potential. According to the information provided by the Science Communications -Arctic Centre about this area “if the oil reserves are compared world-wide, they are equivalent to Norway's Sea reserves”⁶⁶. Furthermore producers can take advantage of the infrastructure and maximize their export potential via the Arctic Sea ports.
- Easter Siberia Basin: is the region with the highest current production, which in its prime contained the second largest producing oil field in the world at Samotlor. The region's potential was increased with the opening of the Easter Siberia-Pacific Ocean (ESPO) pipeline in 2010. No tax duties and lower taxes made the basin the center of Rosneft production.
- Yamal Peninsula: the region is mostly known for gas production, whereas crude oil development is relatively new. Transportation infrastructure is an

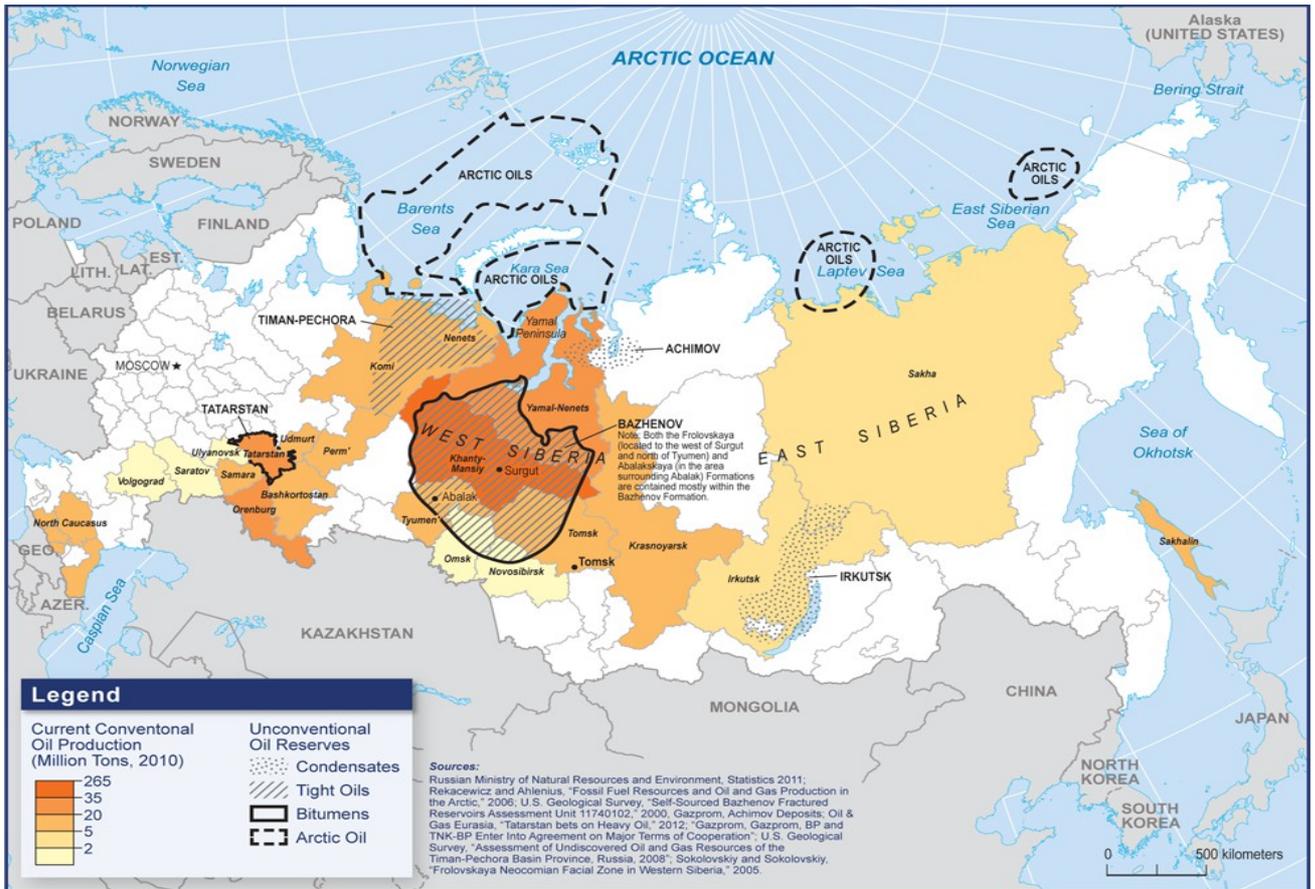
66 “*Oil and Gas Reserves in North West Russia*”, Arctic Centre, 2011, available at <<http://www.arcticcentre.ulapland.fi/barentsinfo/economic/02/03/html>>

hindrance, however pipelines are under construction.

- Sakhalin Island: the island is at first stage of development, but still home to a number of large oil and gas fields. Both international companies and Russian ones are involved in the development of energy resources in this area.

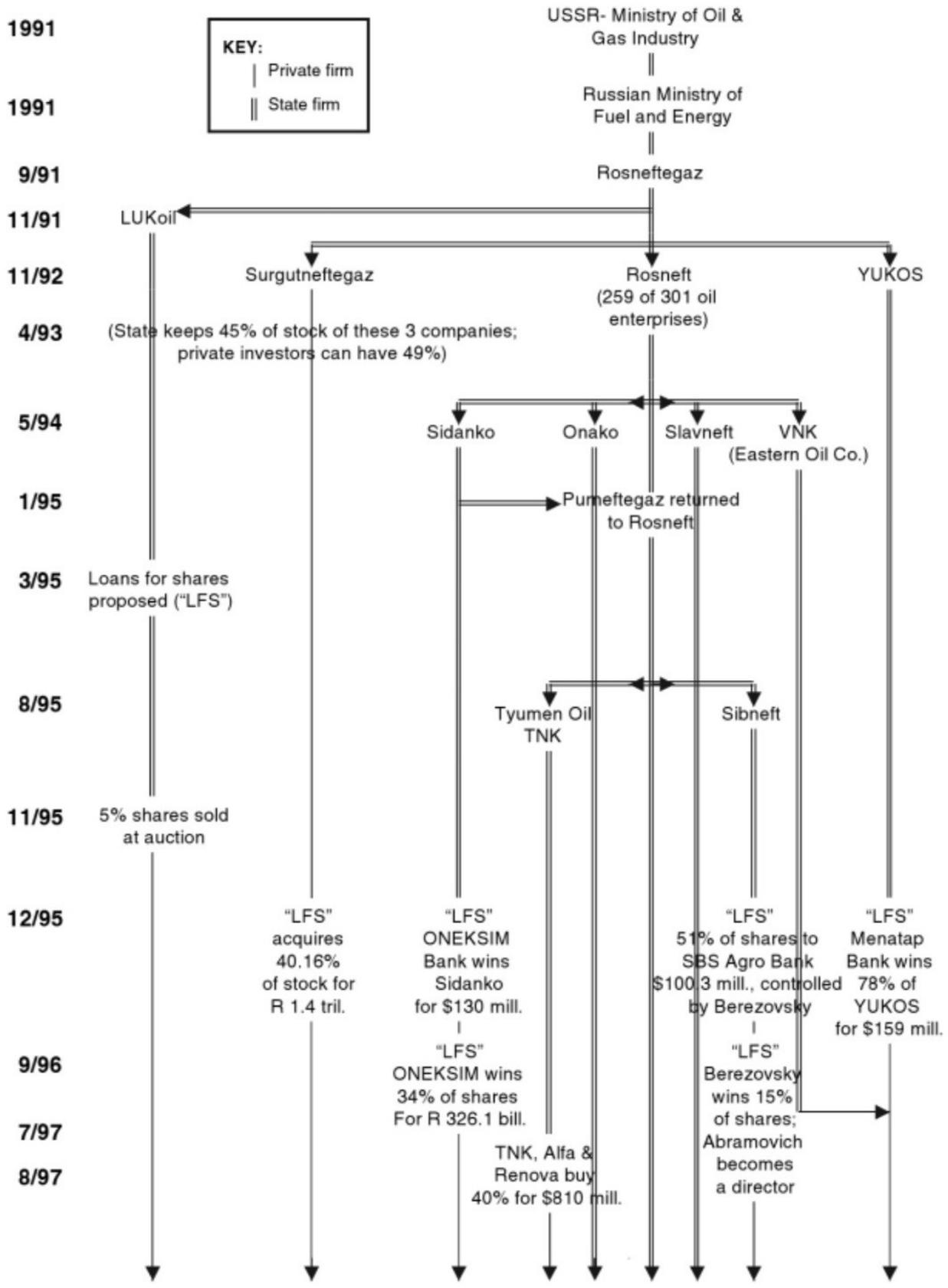
Russia's oil production by regions, 2012

REGION	THOUSAND BBL/D
Western Siberia	6,42
Urals-Volga	2,31
Krasnoyarsk	368
Sakhalin	283
Komi Republic	259
Arkhangelsk	249
Irkutsk	201
Yakutiya	133
North Caucasus	64
Kaliningrad	26
TOTAL	10,32



Russian energy companies

Today Russia's biggest companies are: Rosneft, Lukoil, TNK-BT, Surgutneftgaz and Gazprom net. All of them stem from the chaotic environment of the aftermath of Soviet Union collapse and the splitting up of the USSR Ministry of Oil and Gas.



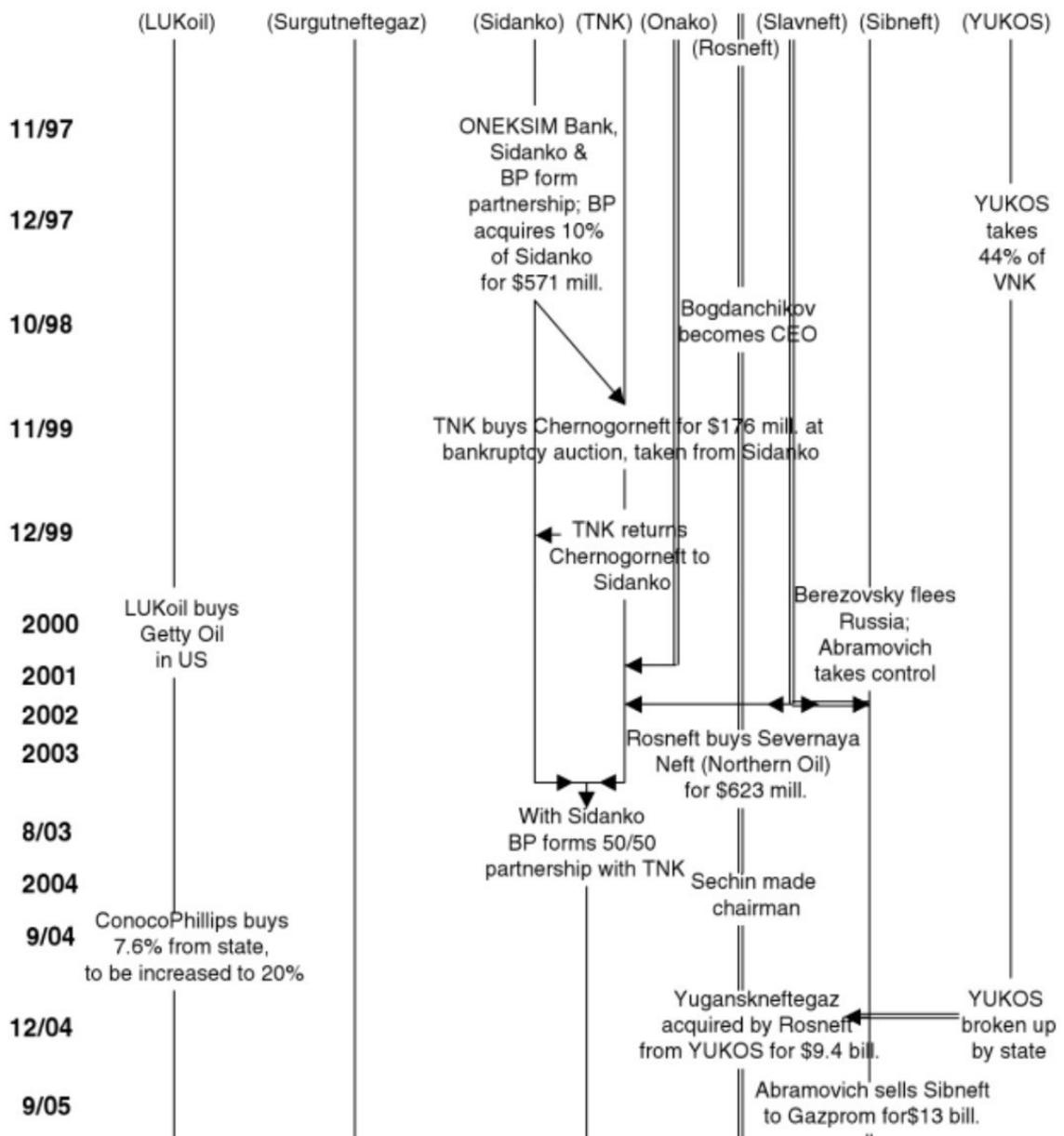


Table-1⁶⁷

67 "The breakup and Reconsolidation of the Ministry of Petroleum and Rosneft". *Kommersant* 10/23/01. Nina Poussenskova, "Rosneft as a Mirror of Russia's Evolution" *Pro et Contra Journal* 10, no.2 (June 2, 2006); Cited in Goldman p.63

- Gazprom was the new name of the former Ministry of Gas Industry. The first Gazprom CEO was in fact, the minister of Gas Industry, Viktor Chernomyrdin. At the beginning the company was a wholly state-owned joint stock company. As a result of the privatization process, the state reduced its stake in Gazprom to around 40 percent in the mid-1990's. However as most of the other shares were held by small investors and company employees, the state's share was big enough to dominate the company board. Today Gazprom produces about 74% of Russia's total natural gas output and controls more than 65% of proven reserves. Therefore no valid competitors in gas sector exist. Furthermore Gazprom owned the Russian Unified Gas Supply System (UGSS) which is the world's largest gas transformation system: 160,000 km of gas pipelines.
- Rosneft was established in 1993, on the basis of Rosneftgaz, the successor to the USSR Ministry of Oil and Gas. At first the Ministry of Fuel and Energy was transferred to a joint stock company called Rosneftgaz. But unlike Gazprom, which remained more or less whole, Rosneftgaz was soon subdivided into 13 major vertically-integrated companies. In 1991 the acting minister of the Petroleum Industry, Vagit Alekperov, used his authority to set some petroleum fields and combine them into a package, call it Lukoil. Afterwards Rosneftgaz was reduced to Rosneft and two more companies, Surgutneftgaz and Yukos were spun off. However, Rosneft owes its power to operation of buying Yukos -the acquisition was an important feature of the process of increasing state ownership in energy industry during Putin's presidency. In 2013 BP sold its Russian assets, and TBK-BP assets were acquired by Rosneft which definitively became the most productive firm in the country.
- Lukoil was created in 1991 as an experiment with private oil ownership and

with decentralized decision-making. The majors shareholders include the Russian government and multinational company ConocoPhillips. Lukoil has very strong positions abroad, and is the only Russian oil company to have built up a diversified business empire. It has bought many firms in Finland, Germany and Iraq⁶⁸. In addition, the company bought 750 Mobile gas stations in the East coast of U.S and recently bought 11 more from Philadelphia Getty.⁶⁹ Today Lukoil is the second largest oil company in Russia, and according to its website, controls 19 per cent of Russian oil production and 19 per cent of its oil refining capacity.

- TNK-BP born in 2003 from the joint venture between TNK – the Tyumen Oil Company owned by Russian billionaires and BP- the British Petroleum. The company's upstream operations are located primarily in West Siberia, East Siberia and Volga- Urals.
- Surgutnegaz is one of the largest companies in Russian oil sector and it is the second largest gas producer.⁷⁰ It is a vertically-integrated company, ruled by Vladimir Bogdanov who was the West Siberian campaign manager in President Putin's first election campaign.⁷¹ For this reason, many analysts, such as Larsson and Kapuchinsky⁷², assert that Surgutneftgaz is one of the Kremlin's most loyal firms.

68 O. Dorman, “*Lukoil Set to Become Global Player*”, Moscow news, 2005, cited in Robert L. LARSSON: (2006) “Russia’s Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Power”.

69 N. Kostelni, “*Lukoil buys 11 Phila. Getty Stations*”, Philadelphia Business Journal, 2011.

70 Surgutneftgaz available on site www.surgutneftgas.ru/en/

71 J.D. Grace, “*Russian Oil Supply, Performance and Prospects*”, Oxford University Press, 2005, p. 136.

72 Robert L. Larsson, “*Russia’s Energy Policy: Security Dimensions and Russia’s Reliability as an Energy Power*”, 2006, Available on site <http://www2.foi.se/rapp/foir1934.pdf>

R. Kupchinsky, “*The Dismantling of Russian Oil Giant Yukos*”, Radio free Europe, 19 October 2014, available at < <http://www.rferl.org/content/article/1055405.html>>

In 2003, 80% of the oil production came from five major private companies (Lukoil, Yukos, TNK-BP, Surgutneftgaz and Sibneft)⁷³. However, the energy industry structure of Russian Federation began to change in 2005 with the re-nationalization process. As a consequence, today state companies are the ones that produce the major amount of oil and gas in the country.

Oil Companies	Production in million bbl/d ⁷⁴	
Private	Lukoil	1.80
	TNK-BP	1.41
	Surgutneftegaz	1.18
	Slavneft	0.31
	Russneft	0.24
State-controlled	Rosneft	2.41
	Gazprom	1.05

This overview of Russian energy sector was aimed at understanding the reserves and potentials, of what is blatantly called, an energy superpower. Nevertheless, president Putin does not like the world “superpower” because it was used during the Cold War and the Cold War is over. In fact, he declared “ I have never referred to Russia as an “energy superpower” , but we have greater possibilities than almost any other country in the world”⁷⁵. Many observers see the economic boom of Russian Federation as built on the sand: the success is simply the luck of the geological draw. Russia is the world's number two oil producer and number one natural gas producer. Therefore the economic recovery is mainly due to the fact that global oil prices have trebled. However Russia made a dramatic about-turn in

73 S. Dixon, “*Organizational Transformation in the Russian Oil Industry*”, Cheltenham, Edward Elgar Publisher, 2008, p. 22.

74 Table: C. Locatelli, S. Rossiaud, “*A Neoinstitutionalist Interpretation of the Changes in the Russian Oil Model*”, *Energy Policy* 39, 2011, p 5593.

75 D. Yergin, “*The Quest: Energy, Security and the Remaking of the Modern World*”, Penguin Books , 2012, p.41.

Putin era: in eight years the country saw a doubling of living standards, a 70 per cent increase in GDP and the paying down of almost all foreign sovereign debts. Skeptics argue that this economic boom can't be sustained and that Russian growth can be attributed to the growth in oil prices. On the contrary, it is essential to recognize the contribution of economic reforms undertaken during Putin's first term.

Putin's grip on economy

Russian economic recovery is strictly linked with the leading figure in Kremlin's politics: Vladimir Vladimirovič Putin. He became interim president of Russia on January 1, 2000 when Boris Yeltsin stepped down from presidency and handed over power to Vladimir Putin.

Before of becoming prime minister, Putin was virtually unknown to the public, both in Russia and abroad.⁷⁶

Born in 1952 in St. Petersburg, he studied law and joined the KGB after the university. After serving as a spy in East Germany, he then returned to St. Petersburg where he was appointed first deputy head of the Federal Security Service (FSB the successor to KGB).⁷⁷ On August 9, 1999 the then president Yeltsin surprised the world by appointing Putin as his prime minister and designated successor. On March 2000, Putin stood for elections and won: he became Russia's second elected president.

When he came into office, Russia was going through a difficult time. The “shock therapy” plunged the country into chaos and throughout this period, Russia has been unable to create a viable political system. 1998 and 1999 were years of political instability: Yeltsin fired and nominated five different prime ministers: in order Kiriyenko, Chernomyrdin, Primakov, Stepashin and Putin.⁷⁸ This instability

⁷⁶ L. Jonson, *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy*, I.B. Tauris, 2004, p.8.

⁷⁷ “Profile: Vladimir Putin”, BBC News Europe, available at <<http://www.bbc.com/news/world-europe15047823>>

⁷⁸ R.H. Donaldson, J.L. Noguee, *The Foreign Policy of Russia: Changing Systems, Enduring Interests*, 2002, M:E. Sharpe. p. 269.

was of course a consequence of the collapse of the old totalitarian Soviet system and of the inability to create a new political elite. According to H.J. Ellison⁷⁹, the majority of deputies, business elites and factory owners were products of the Communist system and hesitant to change.⁸⁰

In addition to this, Russian leadership had to cope with critical economic conditions. Once again a stagnant economy, corruption and inefficiency were the heritage of the Soviet breakdown. The causes that contributed were long-standing: chronic inefficiency of Soviet- style planning, obsolete capital shock and disruption of production chain.

The 1990's were the doldrums of the Russian oil industry, hence Mr. Yeltsin, backed by a young economist, Yegor T. Gaidar, introduced market reforms aimed at evolving Russian economy from a heavily militarized economy to a free market economy. He eliminated price controls entirely in early 1992. In his autobiography he wrote: “ They expected paradise on earth, but instead they got inflation, unemployment, economic shock and political crisis”⁸¹ .

With the rapid wave of privatization the economy turned to a hybrid of private enterprise controlled by a small wealthy elite, the so called “oligarchs”. Under this category fall men who used capitals from private banks, close political connections to Russian government and financial support to gain ownership of key Russian industries and state property at below market prices.⁸² Under these circumstances, Russian business elites made huge fortunes in short periods of time. The problem was the loosening of state control over political and civil infrastructures.

“Yeltsin fell short in establishing the rule of law to govern the freedom he unleashed. The result was a warped proto capitalism in which a few hustlers

79 An emeritus professor of history and international studies at the University of Washington and former director of the Kennan Institute of Advanced Russian Studies in Washington D.C.

80 H.J. Ellison, “ *Boris Yeltsin and Russia's Democratic Transformation*”, University of Washington Press, 2006, p 73-74.

81 M. Berger, “ *Boris Yeltsin, Russia's First Post-Soviet Leader, is Dead*”, The New York Times, 23 April 2007. Available at < http://www.nytimes.com/2007/04/23/world/europe/23cnd-yeltsin.html?pagewanted=all&_r=0>

82 L. Shevtsova, “ *Russia- Lost in Transition*”, Carnegie Endowment for International Peace, 2007. p. 104-105.

became billionaires and masters of the state.”⁸³ One of the most prominent of the financial barons was Boris Berezovsky, along with M. Khodorkovsky, R. Abramovich, V. Potanin and V. Bogdanov.

This people instead of investing in their new holdings in Russia, they rather focused on developing new ways of evading taxes, stripping cash from assets and moving cash offshore, and eviscerating minority shareholders right. ⁸⁴ The true benefactors of the rapid privatization schemes of shock therapy, massive profits made by oligarchs did little to help the Russian economy. Notwithstanding Yeltsin's reforms, not only the economic recovery remained elusive, but Russia had been rolled back to an earlier stage of economic development, erasing many of the achievements reached between 1928 and the 1970s.

Liberalization of prices lacked investment, privatization brought no new capitals for reconstructing to firms. Clearly, the Yeltsin-Gaidar economic reforms failed to achieve its announced goals: economic stabilization, the growth of industrial production and an increase in the well-being of the population.

Moreover, the situation deteriorated in 1998, when a financial crisis hit the country and devaluated the ruble. There are three prevailing explanations for the 1998 crisis. The first highlights the coincidence of events, such as the Asian flu (a period of financial crisis that gripped much of East Asia in 1997), a drop in oil prices (due to the decline in demand) and political instability (Yeltsin dismissed Chernomyrdin and named Kiriyenko as prime minister). Another says that the crisis was essentially an outcome of the currency mismanagement. The third explanation accepts that the crisis was caused by budgetary problems, precisely deficits resulting in mounting government debt.⁸⁵ Probably the financial meltdown had been a result of macroeconomic and several endogenous factors. Hence,

83 D. E. Hoffman, “*The Oligarchs: Wealth and Power in the New Russia*”, Public Affairs, 2011, p. XI.

84 L. S., Wolosky “*Putin Plutocrat Problem*”, *Foreign Affairs*, March-April 2000. Available at <<http://www.foreignaffairs.com/articles/55843/lee-s-wolosky/putins-plutocrat-problem>>

85 L. McCann, “*Russian Transformations: Challenging the Global Narrative*”, BASEES/ Routledge Series on Russian and East European Studies, 2004, p.44.

Russia at the turn of the millennium was in a bankruptcy, and owed \$16,6 billion to the IMF alone; the foreign currency reserves were shrinking and under \$8 billion.

Therefore, at the beginning of the new millennium, the Putin - Medvedev tandem had to deal with several challenges. First of all, the economic recovery and the overcoming of an identity crisis, in which the country was going through.

The turnaround came in 1999-2000 with the start of the post-crisis recovery of the Russian economy. The World Bank typically cites a number of factors as key in stimulating Russian economic growth after the slump of 1998: relative price readjustments and the collapse in the real exchange rate; a decline in real wages and underutilised productive capacity of labour and capital as a result of the decline of Russian industry in the 1990s; and a series of reforms encouraged by the government in the wake of the crisis that led to improvements in efficiency and industrial reconstructing.⁸⁶ The most significant factor of all, however, was the rise of world crude oil prices from a low of around \$10 a barrel in December 1998 to around \$33 a barrel in September 2000⁸⁷. This provided a major injection of cash into the domestic economy, which had been heavily spent on strategic initiatives such as reducing Russia's international debt. Kremlin's debt payments to both the IMF and the Paris Club have been paid off ahead of schedule.⁸⁸

Anyway, as the president in charge, Mr. Putin immediately focused on the goals he declared in the article "Russia at the turn of the millennium"; it is a sort of "manifesto" he wrote and published on the eve of taking over the reins of power on 31 December 1999. In the document, Putin carefully spelled out what he considered to be Russia's primary problems and how he intended to solve them. In

86 The World Bank, *"From Transition to Development"*, (Executive Summary 2005), p.7 available at: <https://www.wdronline.worldbank.org/handle/10986/8628>

87 OPEC Fact Sheet, 'OPEC Fact Sheet', January 8, 2002, available at <http://www.eia.doe.gov/emeu/cabs/opec.htm>

88 J. Mankoff, *"Vladimir Putin and the Re-Emergence of Russian Foreign Policy"*, *International Security Studies*, 2006, p. 13.

particular, he outlined a number of key goals: first of all the re-establishment of state control and power; the state management of the energy sector and the consolidation of the sense of Russian nationhood.

He defined himself as a support of “managed democracy”, a term which came into public use in the spring of 2005. Surkov, the mastermind of Putin, explained that sovereign democracy was “ a form of political life of a society in which the governing authorities, their organs and actions are chosen, formed and directed by the Russian nation in all its variety and integrity in order to achieve material welfare, freedom and fairness for all the citizens, social groups and peoples that compose it”.⁸⁹

Hence this political system is built upon top-down control, but provides Russian citizens with many of the same legal protections of developed democracies. The Kremlin declines the theory of liberal democracy, and Surkov distinguished sovereign democracy from liberal democracy, arguing that Russia's democratic values were as well-established as the West's. In his opinion liberal democracy led only to corruption, insecurity and poverty. Moreover in the current regime in Moscow, pluralism and populism are absolutely not distinctive features⁹⁰.

During the period between 2000 and 2003 president Putin focused on consolidating his position. He devoted himself to reconstructing state power and to ensuring that no opposition by regional or party leaders could challenge the regime. In order to reduce threats and tensions, Putin systematically used administrative means to restrict political competition. He decided to get rid of “Yeltsin Family” , that is to say the political closest allies of the then president: a political leadership overgrown with powerful regional, oligarchic and bureaucratic interests.

Gradually, Putin began bringing old colleagues from Saint Petersburg into the Kremlin, building his own entourage. They can be divided into two groups: the liberal technocrats such as German Gref and Alexei Kudrin, which held key

⁸⁹ S. White, “*Understanding Russian Politics*”, Cambridge University Press, 2011, p.359 .

⁹⁰ A.Chandler , “*Democracy, Gender and Social Policy in Russia: A Wayward Society*” , Palgrave Macmillan, 2013, p.117.

positions on the economic staff. The second group is known in Russia as “*siloviki*” and gathered friends and colleagues from Putin's work experience in the KGB. They were first of all Sergei Ivanov, Victor Cherkesov and Nikolai Patrushev⁹¹. These are predominantly intelligence professionals, skilled in political intrigues of both the communist apparatus and secret police variety. Many of them came to the Kremlin from St. Petersburg and begun their executive work: by 2003 the *siloviki* made up about one-third of government functionaries, about sixty per cent of Putin's inner circle and seventy percent of the staff working for the Kremlin's seven regional emissaries. According to research by Olga Kryshtanovskaya, a sociologist at the Russian Academy of Sciences, the *siloviki* were usually placed in senior government positions in order to play a role of “watchdog” over the government's professional managers or at the helm of state-controlled companies.⁹² This group of people, categorized by Kryshtanovskaya as “people of power”, gained extensive control over Russia's business community, pushing out most of the Yeltsin-era oligarchs who might have caused Putin problems.

As previously explained, the oligarchs in Russia are business tycoons who grew richer and richer through the privatization process of the 1990s. Since the Russian state was very weak under Yeltsin's presidency, the government was generally unable to exercise much control: oligarchs paid little or no taxes on their purchases and their success depended only on connections to the government officials in charge of privatizing national energy resources. As A. Jack says, their mood was “grab it while you can”⁹³. Capital flight schemes and money-laundering operations suggest that enormous amounts of money disappeared and overall some \$350 billion in capital may have fled the country during the 1990s⁹⁴.

91 L. Shevtsova, “*Putin's Russia*”, Carnegie Endowment for International Peace, 2010, p.86.

92 O. Kryshtanovskaya, S. White, “*Putin Militocracy*”, Post-Soviet Affairs 289-306, 2003.

93 A. Jack, “*Inside Putin's Russia: Can There Be Reform Without Democracy?*”, Oxford University Press, 2004 p. 187.

94 B.S. Sergi, “*Misinterpreting Modern Russia: Western Views of Putin and his Presidency*”, Bloomsbury, 2009, p.120.

As soon as he became president, Putin wanted to redefine the relationship between the Kremlin and the country's leading tycoons. Hence, the first step was to declare a change in the rules of the game. The deal made in mid-2000 was that the president would not interfere with their business as long as they did not challenge or criticize him. This process of redefinition has unfolded in stages. In 2000 all Russian top business clans came under some sort of official pressure: investigations and restrictions. However Putin publicly intervened as their protector, reminding them that his protection might be withdrawn. Putin wanted commercial elite out of the Kremlin's affair. With the persecution of two well known oligarchs, Berezovsky and Gusinskii, which left Russia for a life in exile, the others lobbied their interest more discreetly, accepting the constraints imposed on them by the new regime.⁹⁵

Within this new framework, the Putin's leadership was finally able to resolve a number of tasks that it had not be able to accomplish earlier. Striking a political balance in the Kremlin allowed the president to launch a series of massive consolidations across the country.

The first task, the rebuilding of state authority was partly accomplished by the establishment of legally and economically equal regional districts. The eighty-nine Russian regions gathered into seven Federal District “*federal'nye okruga*”, headed by specially appointed presidential representatives. In the president's view, the weakness of Yeltsin government, both politically and financially, forced the previous president to make considerable concessions to the regions. Therefore, in 2000 Putin had pursued a policy designed to take away or reduce most powers exercised by regional leaders. The reform included Putin's ability to fire governors and disband regional regional legislatures; Putin's watchword was “restoring effective vertical power in the country”. In the opinion of Robert W. Orttung, the presidential administration is using this ability to encourage regional legislatures to

95 C. Ross , “*Russian Politics Under Putin*”, Manchester University Press, 2004, p.117.

do what it wants.

Secondly, with the second campaign in Chechnya, Mr. Putin strongly defended Russian territorial integrity and leadership on former Soviet territory. And Chechnya came at the right moment as the growth in support for Putin can be directly connected to the start of the military operation in Chechnya. The war in fact started just two months in to Putin's premiership; as said above, before becoming prime minister, no one knew Vladimir Putin: the war propelled him from unknown bureaucrat to national hero. In the summer of 1999, opinion polls gave Putin an extremely low rating, whereas strong support was shown for Luzhkov (the mayor of Moscow) and Primakov. In August 1999 Chechen rebels invaded Dagestan, took control of two Dagestani villages close to the border, and declared their intention to set up an Islamic state on Chechen and Dagestani territory.

According to Lena Jonson, it was this crisis that drove to Putin's appointment as prime minister. Putin immediately labelled the event a case of terrorism, while Yeltsin had tried in every way possible to avoid the intervention. Putin understood that “ what happened in Chechnya and the entire Caucasus is only one of the elements that is weakening our state. Citizens are worried by this weakness because they feel this weakness first hand. They do not feel protected and safe”.⁹⁶ He stated that his goal was “to defend the population from bandits”. He said what millions of citizens expected of a leader.

As it turned out, these words went down extremely well with the public. All the public opinion polls indicated a great leap in Putin's popularity, at a time when Russian people had been shaken by the terrorist attacks. And Putin built on this success. Given the fact that the Russian people believed that the rationale for the war was self- defense, the majority of citizens supported the counter offensive from the very beginning. This popular support for the war translated into positive ratings

⁹⁶ R.Seely, *“The Russian-Chechen Conflict 1800-2000: A Deadly Embrace”*, Routledge 2001.

for Putin as a political leader. He looked like a leader at the top who was taking charge during an uncertain, insecure time and his decisive response is the reason why he rose in the polls. This is why, this war is considered the platform for the launching and consolidation of the Putin presidency.⁹⁷ Sergei Kovalev, the then leading candidate on a democratic party (Yabloko Party) list for the election, named the Chechen war, “Putin's war” as, the only way Putin could reach a political victory over his Moscow competitors was to achieve a military victory⁹⁸.

Hence, he declared that the task of bringing Chechnya under control was no longer that of the military, and that the quantity of Russian troops in that region, was to be radically reduced. Responsibility for the operation was transferred from the Defence Ministry to the Russian Federal Security Service.

Economic politics:

In an historical standpoint, Russian economy has always been marked by ups and downs. From 1860 to today, the deepest troughs in the long-term perspective were the downturns of 1862, 1917-1920, 1942 and 1945, 1991-1994. During these recessions, the economy of the Russian empire-USSR-Russia plunged by 14 % or more.

The crucial point is the dependency on the oil prices. In fact, both oil and gas have been the mainstay of the Soviet and now Russia economy for decades. Indeed, a correlation can be made between oil prices and government revenues. In 1981, after the 1970's OPEC oil embargoes sent oil prices to as high as \$39 a barrel, the USSR became the world's largest oil producer. World oil price declines later in the 1980s struck a major blow to the Soviet economy. From 1999-2000, Russia experienced the reverse fate: an economic bonanza, as oil prices increased.

⁹⁷ G. Gill, “*Routledge Handbook of Russian Politics & Society*”, Routledge, 2013 , p. 233.

⁹⁸ S. Kovalev, “*Putin's War*”, The New York Review of Books, 10 February 2000, available at<<http://www.nybooks.com/articles/archives/2000/feb/10/putins-war/?page=1>>

Putin recruited the liberal German Gref as director of the Ministry of Economic Development and Trade, and asked him to develop a new strategy for Russia's growth and to prioritize economic reform tasks. Initially, the economic program outlined was hallmarked by a liberal spirit and openness to the world economy. The aim was to create the conditions for stable economic growth and for integration in the global economy. In the first presidential term, Putin focused on achieving economic stability and launching some critical reforms, whereas in the second term the pivot was the re-establishment of government control over critical sectors of Russian economy.⁹⁹

Taxation system burst into Russia during the 1990s, and it did not take shape within a unified system, but rather through a chaotic adoption of laws and regulations. In addition, laws regulating taxation kept changing : the result was corruption and evasion.

The lack of a transparent, predictable and stable taxation system has widely been considered as one of the main reasons for the economic decline.

In 2000, Putin's entourage successfully enacted a “Russian Tax Revolution”. The reform package reduced tax rates, eliminated many tax privileges and simplified the tax code. Furthermore, it lowered the costs of compliance for taxpayers and eased the work of tax inspectors.

A 13 per cent flat-rate personal income tax was introduced. The profit tax on corporation was reduced from 35 per cent to 25 per cent, whereas many profit tax exemptions were eliminated. A single social security tax consolidated five different previous taxes.

The introduction of tax reforms coincided with a surge in tax receipts and helped to facilitate the rise in tax revenues. Since the enactment of these reforms, the total tax

⁹⁹ W.H. Cooper, “*Russia's Economic Performance and Policies and their implication for the U.S*”, CRS Report for Congress, 2009 p.14, available at <<https://www.fas.org/sgp/crs/row/RL34512.pdf>>

burden in Russia as a percentage of GDP dropped from nearly 35 per cent to 31 per cent.

Since Mr. Putin understood the utmost significance of oil prices for the stability of national economy, in 2004 he established the Stabilization Fund. Given that oil prices are highly unstable, and the dependence on oil and gas exports (65%), the country is vulnerable to economic crisis in case of low demand and reduction on prices.¹⁰⁰ The fund was aimed at insuring the federal budget against price volatility by creating a reserve. The reserves stemmed from revenues from export duties and taxes when world market oil prices were above the base price; hence the fund absorbs part of oil profits, to prevent damaging inflation rates and to set aside money available for future drops in oil prices. Reserves were used to pay off the deficit of state budget and international debt.¹⁰¹ Hence, the fund serves for balancing government expenditures and to reduce exchange-rate fluctuations.

The reshaping of energy sector and state control

Given the overwhelming importance of energy sector for the whole economy of the Federation, President Putin on his political agenda left no choices: nationalization of the sector was the key to economic growth.

To understand president's choices of economic policy in the energy sector, it should be read the article he wrote - precisely the abstract of his PhD thesis at the Mining Institute, titled "Mineral Raw materials in the strategy for Development of the Russian Economy"¹⁰². After discussing the importance of the raw material

100 "Oil and Natural gas in Russia: Fuelling Growth" Bric Spotlight, 2011 p.3 , available at <<http://www.thomaswhite.com/pdf/bric-spotlight-report-russia-oil-and-gas-january-11.pdf>>

101 World Bank Moscow Office Economic Unit, 2006, p.13.

102 "Putin's thesis", Available at <<http://www.theatlantic.com/daily-dish/archive/2008/08/putins-thesis-raw-text/212739/>>

sector in contributing to the country's gross domestic product, Putin argues that, “The structural reconfiguration of the national economy on the basis of the country's existing raw materials will be a strategic factor of Russia's economic growth in the near term”. The transformation is needed, as Soviet oil and gas sector were developed in complete isolation from market forces.

Putin political leadership saw the liberalization process of the 1990s as the main cause of Russian economic weakness. Within this framework, the previous Russian government sold off its assets (industries, capitals and resources) to private entrepreneurs in what Chrystia Freeland called the “Sale of the Century”¹⁰³.

To be successful, the shift designed, must be a fusion of the state and private sectors, by the creation of vertically integrated financial industrial groups. Basically, the power structure of the energy sector is concentrated to a block consisting of energy corporations, a few bureaucratic bodies and the Kremlin.

From the very beginning of his presidency, Vladimir Putin made clear that it was his primary aim to increase state control in strategic sectors. The aim was achieved mainly through state ownership of big enterprises in the energy sector. In the gas industry, Gazprom has performed this function, whereas Rosneft did it in oil industry.

The process of re-nationalization or “de-prevatizatsyia” of the energy sector consisted in transferring economic assets from private control to state control. It was implemented directly by taking control of assets or indirectly through supposedly private sector companies in which Russian government has substantial ownership. The work pattern recurred several times: transfer of shares from a company to others, strategic changes of the boards of directors of Russian energy corporations and serious charges against private enterprises.

The first step undertaken by president Putin was the change of the leadership in

103 C. Freeland, “*Sale of the Century: Russia's Wild Ride from Communism to Capitalism*”, Crown Business, 2000.

charge with friendly companies: in 2001 Gazprom's president Vyakhirev was sacked and replaced by Alexei Miller, a close friend of Putin and his supporter during the electoral campaign. In 2005 Chernomyrdin was replaced by Dmitry Medvedev, who became Head of the Presidential Administration : having two ministers on the board also facilitates communication between the Kremlin and Gazprom.

Later on, Igor Sechin, who was president Putin's deputy chief during his first term , was also appointed by the president as Rosneft's chairman.

Instead of working with the existing leadership, Putin decided to replace it with the people he had worked before. This choice turned out to be pivotal to the success of Putin's plan to re- nationalize the energy sector. Without their loyalty to Putin, he might not have been able to direct the trading of shares that gave Russia a large ownership in energy industry.

In fact Sechin has been pivotal in the very transformation of Rosneft into not just one of the biggest oil companies but into a major player in the whole energy sector. Soon after he became Rosneft's chairman, he arranged the so called “Yukos affair”, which led to the Rosneft takeover of Yukos oil – the then largest crude oil producer.

The attack on Yukos oil company marked the beginning of the process of re-nationalizing strategic industries by the Kremlin. In 2003 the president of Yukos company Mikhail Khodorkovsky was arrested and charged with tax evasion. The action was predictable as, the same year a report titled “State and Oligarchs” was published by the Council of National Security . The report depicted oligarchs as a threat to government and to national wealth and Khodorkovsky, as CEO of an oil giant, was the first on the list¹⁰⁴. Moreover, according to Kononczuk, the practice of avoiding paying taxes was common to the entire Russian energy industry: in

104 V. Korchagina, “*A whiz ar black PR stirs up a storm*”, The Moscow Times, 2003, available at <<http://www.themoscowtimes.com/news/article/a-whiz-at-black-pr-stirs-up-a-storm/236745.html>>

particular Sibneft and even Gazprom were colossal tax evader ¹⁰⁵. Nevertheless, the government chose to target and get rid of Yukos.

From here, Yukos was led to artificial bankruptcy. Straight after the Kremlin seized Yukos's assets to pay tax penalties and sold them at below prices to Rosneft, the state-owned company.¹⁰⁶ The seizure of Yukos was the watershed event: it marked the launch of an aggressive re-nationalization campaign but also, the event showed the unassailability of Putin's leadership. Although the seizure of Yukos assets found strong disapproval in the Russian media¹⁰⁷ because of violations of rights and disregard of the rule of law, Putin's group saw no repercussions. The Yukos takeover was the stepping-stone that emboldened the practice.

Having become Rosneft's chief executive in 2012, Sechin orchestrated the company's \$ 55 billion purchase of TNK-BP, a BP joint oil venture in Russia. At the beginning the Kremlin forced TNK-BP (a vertically integrated oil company co-owned by british oil firm BP and a group of Russian billionaires known as AAR) to give up its gas field in Siberia. Finally in 2012 Rosneft bought TNK-BP. The result was that Rosneft became the world's number-one oil producer.

As said before, along with Rosneft, Gazprom was targeted by the Kremlin's policy of nationalization.

In furthering his mission, in 2005 Putin announced that Gazprom would purchase the majority of Sibneft, previously owned by Roman Abramovich. According to the newspaper Pravda¹⁰⁸, it was the biggest purchase in the Russian corporate history: the agreement provided that Gazprom purchased 72,6 per cent of Sibneft shares for \$ 13 billion. The deal changed the landscape of Russian energy sector as Gazprom became the dominant player in the market.

105 W. Kononczuk, *"The Yukos Affair: its Motives and Implications"* ,Centre for Eastern Studies, Warsaw, 2006, p.35, available at <http://www.osw.waw.pl/sites/default/files/prace_25.pdf>

106 W.H. Cooper, *"Russia's Economic Performance and Policies and Their Implications for the United States"*, CRS Report For Congress 2008 , available at <<http://www.fas.org/sgp/crs/row/RL34512.pdf>>

107 <http://www.old.khodorkovsky.info/society/opinion/>

108 <http://www.old.khodorkovsky.info/society/opinion/>

The restructuring of Gazprom industry was target at becoming the main player in energy sector. Between 2004 and 2007 the Kremlin increased its stake in the oil industry through Gazprom.

To consolidate Gazprom's position in the export markets, in 2006 Putin signed legislation passed by the Federal Council and State Duma concerning the right to sell Russian natural gas abroad. The law decreed that exclusive right to export natural gas outside Russian Federation belongs to that organization which owns the unified system of gas supply or its subsidiary company¹⁰⁹. Basically, the law not only provided Gazprom with exclusive rights to export gas, but also to pursue a coordinated production and marketing policy with the government within Russian Federation and to European Union¹¹⁰.

Another important fact about Kremlin's influence over the energy sector is the fact that state institutions are the sole responsible units for deciding routes of pipelines and location of part terminals as well as for selection of partners among foreign private companies and governments¹¹¹. By controlling the entire oil and gas pipeline grid, the state has a strong lever in controlling energy flows. After the dissolution of the Soviet Union, each new nation gained ownership over the pipelines crossing their territory. Transneft is the state owned company that has a monopoly over Russian oil pipeline network. Since Gazprom controls the whole gas pipeline grid, state monopoly is absolute.

In conclusion, under Putin's leadership, the state is monopolizing key branches of the economy: the result is that with the rise of national oil companies in Russia the share of state owned companies in oil production had grown from about 27 per cent

109 Federal law of the Russian Federation, Rossijskaja Gazeta, 18 July 2006, available at <<http://www.rg.ru/2006/07/20/gaz-export-dok.html>>

110 Gazprom annual report 2006, Available at < http://www.gazprom.com/f/posts/88/439833/1report_eng.pdf> p.47

111 D. Bochkarev, "*Russian Energy Strategy in Making: General Trends and Political Implication*", Presses Universitaires De Louvain, 2005, p.42.

to almost 40 per cent of national oil output.

In the reshaping of the energy sector made under Putin's presidency we have seen that the watchword is “reassessment of state control”. The strategic salience of energy reserves for the Russian economy is such , that Putin party affected also the legal regulations in order to protect the government interests in energy sector. For example in 2003 Putin's group adopted a “Law on State Secrets”; according to it the volume and location of reserves as well as the information on the “amounts of extraction production and consumption of Russia's strategically valuable fossil fuel” became secret.¹¹² The goal of the law is probably to bring temporary uncertainty to the investment assessment of Russian energy potential.

Putin and foreign investments

Since the energy industry is the most important and most lucrative business in Russia, it has always drawn foreign investors' attention. On the other side, Russian policymakers have behaved ambiguously. Foreign investments mean both a way to modernization, in particular technological breakthroughs but also, fear of surrendering control over this important sector to foreign interest. This ambivalence explains why over the last century Russian state had different attitudes towards foreign investments.

According to Cameron, the director of EU-Russia Energy Centre, the position of foreign investors in Russia has changed a number of times throughout history depending on the priorities and needs of the governments. During the 1990s, the enthusiasm for economic modernization and the shift to capitalism lowered the restrictions and paved the way to joint ventures.

At that time, exactly in 1995, the Yeltsin's political leadership enacted the PSA Law: the Production Sharing Agreement. The agreement is signed between the

112 D. Bochkarev, “*Russian Energy Strategy in Making: General Trends and political Implications*”, p.17.

state, the local authorities in the region and the investor. In order to attract foreign investors, the law gives investors the rights to exploration, development and production of energy resources. In fact, the two most important production sharing agreement projects dated back to 1996: Sakhalin -1 and Sakhalin-2. The projects were about the exploration on the Sakhalin island and the licences for the development of hydrocarbons belong to companies owned by foreign companies.

Actually, the PSA law has many restrictions: it could be applied only to ten per cent of all mineral reserves and only to the subsoil plots selected by the Russian state. Hence, the law fell prey to protectionist politicians. The limited effectiveness of the law is best exemplified by the practical application. Negotiations of Sakhalin-1 lasted for eight years, and each project had to obtain on average 1,500 permits in order to start operations.¹¹³

In the framework of president Putin's view of energy sector's management, foreign investments were to be restricted and clearly ruled.

As many times Mr. Putin repeated, the energy sector is of vital importance for Russian economy: it is a matter of national security and the main source of income. In addition, the poor economic performance of private companies during the 1990s spurred the population and many experts from the state sector to speak out against investments from outside.

Therefore, since he became president, foreigner investors in the Russian oil and gas sector faced increasing pressure from the state. Virtually foreign firms are met with obstacles, unpredictable changes of the regulatory framework and politicised decisions aimed at promoting national interest on the expense of the market. In actual facts, let's analyse how the president dealt with Sakhalin-2, the major foreign project in Russia. Sakhalin-2 was established in 1994 and involved three foreign

113 M. Mikhilyukova, "The PSA Patron", RUSS. PETROLEUM INVESTOR, 2001 in A. Shulga, "Foreign Investment In Russia's Oil and Gas: Legal Framework and Lessons for the Future", Journal of International Law, 2001, available at <<http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1311&context=jil>>

energy companies: Royal Dutch Shell, Mitsui and Mitsubishi; they established Sakhalin Energy.

According to Shell, the project is the largest integrated oil and gas project in the world. It includes extraction, production and distribution network, involving of more \$20 billion. It is based on the undersea hydrocarbon fields near the Russian Pacific island of Sakhalin, estimated to hold 1.2 billion barrels of oil and 500 billion cubic metres of natural gas. It will be the world's largest source of liquefied natural gas producing an estimated 9.6 million tonnes of LPG annually.

When the deal was reached between the government of then-president Yeltsin and Sakhalin Energy, it was made up of the rights to exploit the fields and payments of exploitation rights after the full capital costs of the venture had been recouped.

Of course this kind of agreement was more profitable for the foreign companies, but at that time Russia desperately needed foreign capitals in energy sector: oil prices were low and the nation was struggling to develop its energy assets.

In Putin's eyes, the project became increasingly offensive and humiliating because of the escalating costs and environmental violations¹¹⁴.

Hence the Russian government launched a campaign to wrest control of the project: inspections, complaints and threats of legal action. The result was that in 2006 Gazprom and the other companies (Shell, Mitsubishi and Mitsui) signed the Protocol on Gazprom's joining Sakhalin Energy as the main shareholder. Afterwards, in 2007 Gazprom and the Sakhalin Energy shareholders signed the Purchase and Sale Agreement. Under this agreement, Gazprom acquired a 50 per cent plus 1 share in Sakhalin Energy, paying \$7.45 billion.

By making Gazprom the majority partner in the project, the Putin administration has ensured that a state-controlled company, not a foreign corporation, will be the primary beneficiary of this huge oil and gas field.

114 A. Roxburgh, *The Strongman: Vladimir Putin and the Struggle for Russia*, I.B. Tauris, 2013, p.168
“Shell (un)shocked in Sakhalin” available at <<http://www.bne.eu/content/story/shell-unshocked-sakhalin>>

In 2005, Russia's Natural resource Ministry announced that foreign companies would be banned from searching for large strategic oil and metal deposits. The new regulation decreed that, foreign participation will be allowed only for ventures in which a Russian has at least a 51% shareholding¹¹⁵.

Furthermore, the government approved a new “Strategic Sectors” law in 2008. The law restricts new foreign investment in 42 sectors deemed “strategic” such as aviation, mining, nuclear development, arms production, telecommunications. The law establishes certain procedures for foreign investors that possess an interest in a business “of strategic importance for national defence and state security, and consummate transactions to gain majority interest in the equity”.

In conclusion, from the very beginning of his presidency, Vladimir Putin and his entourage made clear that the primary aim was the de-privatization of key economic fields. The result of this policy is a merger of state and economy, but state control has gradually been restored: in particular the state takeover of energy corporations gives the Kremlin increased ownership of energy industries and makes them dependent on the government. Currently the government controls the largest part of oil and gas production, controls the pipeline grids and power is accumulating at Gazprom and Rosneft. The loyal personnel appointed by Putin in every important position in state controlled corporations made easier the task: they act politically correct and control both politics and business. In addition, laws and regulations have been altered in order to increase state control of the market and restrict foreign investments.

Therefore state has strengthened its grip on energy sector: from the subsoil reserves, to energy corporation, from transport infrastructures to market management. Many scholars see this process as the building of the energy lever

115 O. Baylugen, “*Foreign Investment, Oil Curse and Democratization: A Comparison of Azerbaijan and Russia*”, APSA meeting, 2005, p.40, available at <<http://ebooks.z0ro.com/ebooks/Articles/Azerbaijan%20Oil%20Curse%20Baylugen.pdf>>

because of this close relationship between state and industries; state-loyal energy firms essentially implemented the Kremlin's wishes and the Kremlin support them versus domestic and foreign competitors. By directly controlling industries, Putin and his entourage are able to negotiate directly with other firms and governments. This come to play in many ways, including business arrangements, political leverage and formation of partnership of states.

Chapter III:

Analysis of Russian energy card

As seen in chapter II, energy sector in Russian Federation is by far the driving sector. This not only regards economy, but also national security. According to the *National Security Strategy of the Russian Federation until 2020* (NSS), Russia's national security depends above all on energy security.

After the fall of the Soviet Union, the Kremlin moved its attention to non-military security tools: in fact military strength and capabilities have been dramatically decreased as Russia lost one sixth of its territory and was in the midst of economic gloom. Moreover, according to Foreign Policy Concept of 2008, “traditional cumbersome military alliances can no longer provide for counteracting the whole range of modern challenges and threats which are transnational in their nature”. The power of energy was the only fungible one.

To sum up, today features of Russian energy sector result from the overlapping of several factors; first of of the natural ones: Russia's abundant energy endowment. The country has massive reserves of oil and the largest natural gas sediments in the world. In addition to this vast subsoil wealth, the country owns a strategic geographic position between Central Asia and Europe. In fact, Russia not only export its own energy, but also gas and oil from Central Asia, that is to say Turkmenistan, Kazakhstan and Uzbekistan. Since the Central Asian countries can not freely access the Russian pipeline network and furthermore are highly reliant on hydrocarbon exports, Russian Federation enjoys a “gatekeeper” position. The ensuing advantages for Russia's power in negotiations and in foreign policy are predictable.

Secondly, the external factors such as the rise in world oil price, from early 1999 on which increased export values, ensuring a constant inflow of foreign exchange and higher government revenues. The world oil prices grew from US \$27/barrel in 2000 to US \$94/barrel in 2008¹¹⁶. Moreover, since many countries have always striven for hydrocarbons, Russian economy profited from export revenues. Today fuel and energy sectors are responsible for creating about 30 per cent of industrial output, for 32 per cent of consolidated revenues, 54 per cent of the federal budget and for 54 per cent of exports¹¹⁷. Hence, contemporary Russian economy is heavily dependent on oil and gas industries, in particular on exports. The connection between energy exports and economic growth is not direct; as far as the production of oil and gas has been almost stagnant in the last few years, the driving force behind export revenues have been the higher demand from Europe and the rise in oil prices.

The energy exports to Europe date back to the late 1950s, when the Soviet Union delivered hydrocarbons to the Eastern European member states of the Council for Mutual Economic Assistance (CMEA)¹¹⁸. In the late 1960s Soviet oil and gas began to flow to Western Europe; overall European imports of Soviet energy continued to rise, since oil and gas were necessary driving forces behind the European economy recovery. The result is that Europe today is highly dependent on Russian hydrocarbons: in 2008 Europe was importing already 34 per cent of oil and around 44 per cent of gas from Russia¹¹⁹.

Although the degree of dependence from Russian energy varies across countries – it is worth noticing that European Union lacks a truly common energy policy-, the trend of dependence is upward. The reason stems from the recent enlargements of 2004 and 2007 as new member states were historically dependent on Russian hydrocarbons.

116Energeticheskaya strategiya Rossii na period do 2030 goda, p.13.

117E.R. Magaril, C.A. Brebbia, M.Y. Khodorovsky, *“Energy Production and Management in the 21st Century: The Quest for Sustainable Energy”* Southampton, WIT Press, 2014, p.153.

118CMEA included: Bulgaria, Czechoslovakia, Hungary, Poland, Romania and East Germany.

119G. Nicchia, *“The energy issue in Eu-Russia relations”*, Napoli, Editoriale Scientifica, 2008, p.69.

The high dependence on part of European Union over Russia for getting energy gives latter a strategic leverage over former in influencing decision making processes especially those concerning energy¹²⁰.

In addition, when Saudi Arabia reduced its production due to the OPEC's production restrictions triggered by the international financial crisis, Russia economically benefitted from this; equally important when in 1973, the embargo spurred the European countries to find an alternative to unstable Middle East flow of oil. All things considered, Russia has since 1999 benefitted immensely from the combination of international concern about energy security, instability in the middle East and dramatically rising oil prices.

Thirdly, as seen in the II chapter, Putin strategic organization of the energy sector was pivotal to Russian resurgence. After two terms of presidency, the outcome is that the power structure of the energy sector is concentrated to a block. This is a sort of energy elite made up of corporations, a few bureaucratic bodies and the Kremlin. The state has strong ties with almost all of the major energy industries, with the Putin-loyal hardliners appointed to strategic positions; the Kremlin controls the pipeline grid and the restrictions of foreign investments to protect and promote Russian business.

In the light of these circumstances, in the last decade Russia has been able to dare to enact a more assertive and self-assured foreign policy¹²¹. The wealth generated from energy exports has gone hand in hand with political stabilization and has contributed significantly to Russia's assertiveness in international politics. This new wealth marks a very substantial development, since it means that Russia feels no

120Z. Baran, "EU Energy Security: Time to End Russian Leverage", The Washington Quarterly, 2007, p.132; EIA 2010, EIA 2011 available at <<http://www.eia.gov/countries/russia>>, P. Liberman "Trading with the Enemy: Security and Relative Economic Gains" International Security, Vol. 21, 1996, p.155-156

121B. Nyrgen, "The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countries", New York, Routledge, 2008 p.19,20; S. White "The Domestic Management of Russia's Foreign and Security Policy", p.21-23 cited in R. Allison, M. Light, S. White, "Putin's Russia and the Enlarged Europe" Chatam House Papers. Oxford, Blackwell, 2006; D. Drzner, "The Sanctions paradox: Economic Statecraft and International Relations" Cambridge University Press, 1999, p.162-163.

longer beholden to the West and can pursue a more independent foreign policy line. In the Concept of Foreign Policy of the Russian Federation, one of the General Provisions states that Russia pursue an independent foreign policy guided by its national interests and based on unconditional respect for international law. “Russia's foreign policy is transparent, predictable and pragmatic”.

As stated in the first chapter, energy may become a tool of policy, especially in highly- endowed with energy reserves countries. Natural resources fuel state's capacities and consequently control over these strategic goods bestows influence and power. Russian Federation is no exception. The international clout stemming from energy revenues, profoundly changed the attitude of Russian government towards neighbours and partners; the country was able to forge a new type of relationship with the EU and the United States.

Since coming to power, Vladimir Putin has shown considerable skill at integrating foreign policy and energy policy to leverage the country's advantage both as a holder of hydrocarbon resources and as a very important producer in its own right. Putin's era has focused on conducting an independent and active multi-vector policy. In a speech at the Munich Conference on Security Policy, Putin declared himself extremely critical of US “ unilateralism”. As said before, for Putin, Russia no longer needs any Western support or advice. According to Mankoff, Russian Federation needed to pursue a dominant position inside the CIS countries and seek a pragmatic cooperation with the West, in order to strengthening Russia as a major international player.

With the phrase “CIS” are meant all countries belonging to the Commonwealth of Independent States, namely countries who were former Soviet Republics. As clearly stated by president Putin, Russia would act as a magnet for Eastern Europe country, both economically and politically. In the Concept of Foreign Policy both in 2008 and 2013, among Russia's regional priorities, stands out the purpose to

forge friendly relations with the CIS Member States on the basis of equality and mutual benefit. Enhancing cooperation and strengthens strategic partnership with major energy consumer and state transit are two of Russia's principal objectives in the area of international economic relations.

However, the so called “ colour revolutions” led to frictions in the relations of those countries with Russia. The Rose Revolution in Georgia in 2003, the Orange Revolution in Ukraine in 2004 and the Tulip Revolution in Kyrgyzstan in 2005 set off alarm bells in the Kremlin, which saw the a new Western plot to foster pro-Western governments in Russia's neighbouring countries.

Besides clashes about CIS countries political alignment and Russian fears of NATO enlargements, diplomatic relations with the former Soviet Republics turned for the worse because of energy disputes.

Since Soviet times, all former Soviet Republics received energy at subsidized prices, not at market prices,. In addition, many pipelines were built in the Soviet period, hence the Russian energy sector got tightly integrated with CIS countries.

The sharing of infrastructure gives Russia significant lever in relations with these countries, even if the dependence is mutual. Among the CIS countries Ukraine and Belarus are the “transit” states, as Russian gas has to cross them to reach Europe; thus, these two countries could limit Russia's ability to pipe gas to Western Europe.

Energy and diplomatic relations got icy after the collapse of the Soviet Union. One of the main objective Russia has pursued has been to eliminate the energy subsidies that former Soviet republics have received since the fall of the Soviet Union.

In 2002 it sharply cut oil deliveries to Latvia and Lithuania as they prevented Russia from buying major energy holdings. Not only Baltic states but also Czech Republic, Moldova, Poland and Belarus suffered supply disruptions in 2004. Finally, from about 2005-2006 onwards, Russia started to raise prices to world

market levels in Ukraine and Belarus. When Gazprom demanded a price increase for its natural gas (to the current market price), Ukraine rejected the proposal and Russia again cut off supplies for two days. This happened in 2006, 2009 and 2014.

As the Eastern Europe countries also Azerbaijan, Turkmenistan, Kazakhstan and Uzbekistan are exposed to a Russian almost monopoly because of their lack of independent export infrastructure. Over the past twenty years Russia has exploited the situation and now it doesn't want Caspian producers to export gas independently of Russia. The case of South Stream versus Nabucco provides a clear example¹²²: the last months of Putin's presidency in 2007 and 2008 were marked by aggressive efforts to prevent the construction of the Nabucco gas pipeline. Given these points, control over the energy flow from this region is pivotal to Russia both for its position vis-à-vis international markets and for its domestic energy balance.

According to a Swedish defence research by Robert Larsson¹²³, Russia has always used energy as a source of influence towards post-Soviet space. In his analysis he reported that the number of incidents due to energy cut-offs, explicit threats, price policy exceeds fifty-five since 1991. Of these incidents, at least twenty have occurred during Putin's terms. In addition, the research found out that the pattern of Moscow influence over the countries is twofold: on the one hand energy challenges in Eastern Europe countries were faced by means of supply cut offs and prices policy, whereas on the other hand frictions with Caspian states with a “pipeline game” and transit fee.

¹²²South Stream is the Gazprom-led project to bring gas to Europe from Russia by passing Caspian countries. Nabucco is a Western project, without Moscow participation to bring gas to Europe from Caspian and Middle Eastern basins.

¹²³R. Larsson, “*Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier*”, FOI-Swedish Defence Research Agency, March 2006.

Regarding to Europe, Russia energy policy is often seen targeted at damaging any attempt of building a common European energy policy. In particular the settlement of long-term bilateral agreements with key European countries such as Germany and Italy, is perceived by the West as a “divide and conquer” tactic.

For instance both Chancellor Gerhard Shroder and Angela Merkel have backed the contentious North Stream pipeline project that directly connects Russia and Germany. In addition, both have supported the expansion of cooperation between German and Russian energy companies.

In 2009 Russia rejected the Energy Charter Treaty, implying that it does not wish to be bound by international rules and principles. Russia in fact has been given free rides in terms of the open market requirements of the WTO and Europe's own Energy Charter.

Additionally, in 2008 Russia military invaded Georgia and recognized the independence of breakaway regions of Ossetia and Abkhazia. Even though Georgia and the international community asked Russia to pull out its troops, Moscow refused and penetrated deep into Georgian soil to seize ports and some transportation routes. Afterwards, international community remains angry over Moscow disagreement for the secession of Kosovo from Serbia, its backing of Syria's president Assad and finally the recent annexation of Crimea.

Charges against Russia

In the light of these developments, many have interpreted the Kremlin's international assertiveness as insistence on pursuing great power status, and of course as anti-Western imperialism. Most commonly, the analysis of contemporary Russian foreign policy is traditionally examined through a West versus East prism.

An interesting example is Naarden and Leerssen's observation that the view of Russia's "national character" in the West fluctuates between "oriental despotism" and "progressive Western-looking nation" depending on the perception of Russia as, respectively, powerful or weak¹²⁴.

Similarly, a number of studies by Katchanovski and Tsygankov demonstrate that the mainstream American news media suffers from a degree of "Russophobia," defined as an "irrational dislike and fear of Russia and Russians"¹²⁵. The coverage of issues involving Russia by major news channels has often been incomplete and mostly negative, while "Russian foreign policy was frequently distorted as striving to start a new Cold War with the United States, allying itself with Iran, and bent on restoration of the Soviet Union by military force"¹²⁶.

The biased coverage has worsened since Putin's return to power, and has continued to intensify following the "Arab Spring" and the gas disputes in Ukraine.

Concerns over the reliability of Russian Federation as supplier have always been a sore point in energy relations between Europe and Russia from the Cold War period. Europe witnessed the birth of the web of hydrocarbons dependency among Soviet republics and satellite states.

The Soviet Union adopted the policy of subsidising energy prices in exchange of political submission, therefore allies were rewarded with ample amounts of subsidized energy sales, whereas who oppose Russian government faces economic punishment. Already in the 1980s UK prime minister Margaret Thatcher and US president Ronald Reagan expressed their concerns about increasing European dependency on Russian hydrocarbons. Buying energy from Russia means financing its military arsenal.

124M.Beller, J.T.Leersean, *Imagology. The cultural construction and literary representation of national characters*, Rodopi, 2007, p.226-229.

125I. Katchanovski, A.R. Morley, *Politics of Miscommunication*, "Politics and Virtual Reality", Political Science Association, 2009;

A. P. Tsygankov, *Russophobia: Anti-Russian Lobby and American Foreign Policy*, Palgrave Macmillan, 2009.

126Katchanovski, *Ibid*.

The gas weapon rhetoric born during the 1990s, when the then president Yeltsin cut energy supplies to Estonia, Latvia and Lithuania in the winter between 1992 and 1993. According to Larsson's research, the number of incidents (cut-offs, explicit threats and take-overs) exceeds twenty during Yeltsin. Despite the fact that gas interruptions, both due to technical or weather explanations and political underpinnings were frequent in the early 1990s, they raised little attention internationally¹²⁷. Probably, the reason is that the Baltic states were not transit states for Russian gas to Western markets. In corroboration of that contribute the commitment freely undertaken by Europe to seek closer cooperation with Russian Federation at the turn of the millennium.

EU and Russia concluded an agreement to initiate a regular Energy Dialogue, established at the October 2000 EU-Russia summit.

Successively, at St. Petersburg summit in 2003, the EU and Russia agreed to start working on the creation of four “common spaces”, meaning closer cooperation and integration in economics and energy policies; they agreed on “road map” for the four spaces in 2005.

Suddenly talks reached a standoff due to mutual distrust: given the increased European dependence on Russian gas imports, but also on Ukraine (which is the main transit state), many concerns arose that Moscow may try to use its energy exports as a political lever by threatening to turn off the taps. Energy security became synonymous with security against Russian Federation.

Frictions were further aggravated by a plethora of new tensions, including energy geopolitics, oil and gas disputes with Ukraine, Belarus, Georgia and Moldova between 2005- 2008.

2006 was the turning point year in energy relations between Russia and Europe, as the crisis between Kiev and Moscow had reverberations in European energy

¹²⁷P. Sutela, *“The political Economy of Putin's Russia”*, New York, Routledge 2012, p.41.

deliveries : Ukraine in fact is the main transit state for Russian gas export to Europe .

Hence, many European and US governments and large part of the media decided that the shutdowns of Russian gas deliveries were something to worry about, and the question of energy weapon arose in political discourse as one of top priorities. Citing Dmitri Rogozin an “oil phobia” was spreading around the West; a phobia that Russia will use energy as a political weapon against EU¹²⁸.

The then European Commission president, José Manuel Barroso claimed to the Brussels Forum : “we are seeing more frequently the use of energy resources as an instrument of political coercion”, although without explicitly naming Russia¹²⁹.

The US administration made no secret warning the EU against increasing its dependency upon Russia. “No legitimate interest is served when oil and gas become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation” said US vice president Dick Cheney¹³⁰

Similarly the U.S. Secretary of State, Condoleezza Rice criticized severely Moscow's actions as “undoubtedly directed by political motives”, and “ politically motivated efforts to constrain energy supply to Ukraine”.

Then, US Director of National Intelligence stated in 2008: “Aggressive Russian efforts to control, restrict or block the transit of hydrocarbons from the Caspian to the West – and to ensure that East-West energy corridor remain subject to Russian control- underscore the potential power and influence of Russia's energy policy.

The events stimulated a higher profile discussion of energy security and in

128F.Hill, “*Beyond Codependency: European Reliance on Russian Energy*”, in U.S.-Europe Analysis Series, July 2005.

129“*EU asks US to help pressure Russia on energy*” The New York Times, available at <<http://www.nytimes.com/2006/04/30/business/worldbusiness/30iht-web.0430energy.html>>

130S. Boykewich, “*Cheney says liberty at risk in Russia*”, The Moscow Times, 5 May 2006, available at <<http://www.themoscowtimes.com/sitemap/free/2006/5/article/cheney-says-liberty-at-risk-in-russia/205172.html>>

NATO's summit in Riga in 2006 was announced for the first time that energy security is “a concern for NATO”. Gas cut offs to Ukraine resulted in calls by US Senators to invoke NATO Article V in the name of preserving energy security. Since the Riga Declaration, the political root has continued to take a higher profile not least because of the oil dispute between Belarus and Russia in December 2006-January 2007.

From then onwards, Russian- Western relations had degraded into a deeply negative spiral of mutual suspicion. Many Western countries depict Russia's energy related decisions and actions as a means of achieving political and economic ascendancy. Western media has often described Russia as a nation that uses energy as the main instrument to maximize state influence and power. According to this journalistic stance on Russia:

-Russia is a superpower: massive reserves and high production levels of hydrocarbons led scholars to repeatedly define Russia as an “energy superpower”.

-Russia is endowed with the “energy weapon” : with intent of coercion and blackmailing. The idea that the Kremlin can decide when and how to stop flowing energy deliveries to consumer states (when- for how long) assumes that energy is a weapon in the hands of the government, always at its disposal; hence, Russian energy industries act as a tool of Russian foreign policy. When the Kremlin decided, Gazprom turns off the taps. The gas company has become the “symbol and substance of neo - imperial Russia”¹³¹.

-Russia as an “energy imperialist” : Russian energy strategy is to create energy dependence via monopolistic control of pipelines and acquisition of transit states' internal distribution networks¹³². Hence many scholars share the opinion that

131J. Bugajski, *“Dismantling the West: Russia's Atlantic Agenda”*, Potomac Books, 2009.

132A. Orban, *“Power, Energy, and the New Russian Imperialism”* , Praeger Security International, 2008, p.5.

hydrocarbon resources are a proxy to promote Russian geopolitical hegemony around the world, specifically in the Near Abroad. The critics tend to assume that “everything the Kremlin does is geopolitically motivated”¹³³; some analysts described this tactic as a “middleman monopoly” that will lock into a monopolistic gas transport system.

In his book, “The rebuilding of greater Russia: Putin's foreign policy towards the CIS countries”, Berlil Nygren states that one of the main Putin's goal was to regain “actual political and economic control of much of the former Soviet space”¹³⁴.

Other researchers strongly believe that energy is the building block of Russian foreign policy, such as Jaffe and Soligo in “The militarization of Resource Management”¹³⁵.

Klare¹³⁶ affirms that Russia uses energy relations to punish unfriendly governments or extract political concessions, Baev¹³⁷ examines the role of energy as a tool of Russia's foreign policy as a source of restoring Russia's military power, and Smith Stegen analyses Russian ability to use the energy supply as a political leverage¹³⁸.

The analysis of the historical fact through this lens assumes that:

-CIS states are all victims: Ukraine, Belarus are victims of Russian political coercion. Russia wants to punish them for Western orientation and aims at getting more influence in the post-Soviet space. For example, Gazprom's decision to raise gas prices for Ukraine and Georgia during 2005-06 was viewed as a part of a larger campaign to undermine the Yushchenko and Saakashvili administrations in Kiev and Tbilisi respectively.

133B. Lo, “*Axis of Convenience: Moscow, Beijing and the New Geopolitics of Energy*”, Brookig Press, 2008, p.135.

134B. Nygren, “*The rebuilding of greater Russia: Putin's foreign policy towards the CIS countries*”, Routledge, 2007, p.238.

135A.M. Jaffe, R. Soligo, “*The militarization of Resource Management*”, Routledge, 2008, p.114.

136M.T. Klare, “*Energy security*” in P. D. Williams, “*Security Studies: an introduction*”, Abingdon, Routledge, 2008.

137P.K. Baev, “*Russian energy policy and military power. Putin's quest for greatness*”, Routledge, 2008.

138K. Smith Stegen, “*Deconstructing the energy weapon: Russia's threat to Europe as case study*”, Energy Policy 39, p. 6505-6513.

-the reliance on Russian hydrocarbon export is perceived as a threat. Europe became the hostage of the Russian bear. Europe could fall victim to the Russian spider web where energy supply, transnational pipelines and distribution companies are governed by one single country. In particular the construction of a pipeline under the Baltic Sea is seen as part of a “divide and conquer” policy aimed at undermining efforts by EU members to pursue a common European energy policy. According to this point of view, the bilateral energy deals with Germany (e.g. North Stream) and Italy (e.g. South Stream) are an attempt at dividing Europe.

-the return of cold war logic: Russia is building a gas curtain to bypass the spoiler (similar to the Warsaw Pact's “iron curtain”). The course of the events sets off speculation in the international community about the emergence of a new Cold War¹³⁹. This perception was recently revived as a seemingly inevitable consequence of Moscow's increasing authoritarianism and anti- Western rhetoric¹⁴⁰.

The Russian arguments

On the other side, the increasing concerns about European dependence on energy imports and the reliability of Russian exports found a flat denial on the part of the Russian government.

First of all Mr. Putin himself rejected the word energy “superpower”, as he preferred “to move away from the terminology”, that is an anachronism of the Cold War. In addition, the president states “I have never said that Russia is or perhaps

139D. Trenin, “*Welcome to Cold War II*”, Foreign Policy, March 2014, available at

<<http://foreignpolicy.com/2014/03/04/welcome-to-cold-war-ii/>>

R. Legvold, “*Managing the New Cold War*”, Foreign Affairs, August 2014, available

<<http://www.foreignaffairs.com/articles/141537/robert-legvold/managing-the-new-cold-war>>

E. Lucas, “*The New Cold War: Putin's threat Russia and the West*”, New York, Palgrave MacMillan, 2014

140R. Sakwa, “*New Cold War or Twenty Years' Crisis? Russia and International Politics*”, International Affairs 84, no.2, 2008.

should be an energy superpower”¹⁴¹.

In 2006, Russia's former Deputy Energy Minister Vladimir Milov reasserted the concept : “The energy superpower concept is an illusion with no basis in reality. Perhaps most dangerously, it doesn't recognize the mutual dependence between Russia and energy consumers”¹⁴².

The idea of Russia as an energy superpower in fact has more polemical than analytical content. It exaggerates Russia's ability to use gas and oil as weapons to augment Russian influence on the world stage¹⁴³. Given its massive reserves and high production levels, Russia is a gas superpower. Whereas regarding oil, the country “it's no Saudi Arabia”, as Adam Stulberg stated in his book “Well-Oiled Diplomacy”. Russia supplies less than 10 percent of global oil or gas; it is hard to imagine this market share could be leveraged into “superpower” status. Since global energy market is complex, fragmented and competitive, no single country or company is capable of exerting decisive influence over the market. Only in collusion with other producers could there be some serious risk of the market being cornered. Such was the case with the control exercised by the leasing oil corporations (the “seven sisters”) from the 1920s to the 1970s. That situation changed radically in the 1970s when the OPEC showed that it was capable of increasing oil prices by restricting output. But nobody talked about a Saudi or Kuwaiti “energy superpower”.

The conventional wisdom on the role of energy in state development is quite contrary to the “energy superpower” idea: resource dependency usually means slower long-term economic growth and greater political instability. In fact, Russia economic wealth is founded on the shifting sands. Several factors of vulnerability

141M. Stuermer, “*Putin and the Rise of Russia*”, Orion Books, 2008.

142V. Milov, A. Kuchins, “*How Sustainable is Russia's Future as an Energy Superpower?*”, The Carnegie Endowment for International Peace, 16 March 2006, available at
<<http://carnegieendowment.org/2006/03/16/how-sustainable-is-russia-s-future-as-energy-superpower/b6z>>

143P. Rutland, “*Russia as an Energy Superpower*” *New Political Economy*, Vol.13 No. 2, June, 2008 available at
<<http://prutland.web.wesleyan.edu/Documents/Energy%20superpower.pdf>>

threaten Russian energy security: from the reliance on exports and world hydrocarbon prices, to the transit states attitudes. Although Russia's reserves are indeed vast, so are the geological challenges that must be overcome: many fields have high extraction costs and uncertain total outlays, as well as export pipelines construction cost.

And the Kremlin was fully aware of its Achilles' heels, therefore since Russia was an independent state, formulation of a long-term energy policy began. In 1995 were approved “Major directions of Energy Strategy of Russia for the period up to 2010”. Realizing the necessity of regular monitoring of the Strategy implementation clearly explains the utmost salience of the energy sector.

One of the main challenge that Russia must cope with, is to “overcome the threats associated with the instability of world energy markets and volatility of world energy prices”, as stated in the Energy Strategy of Russia for the period up to 2030. The official documents “Energy Strategy” underline the need to formulate a long-term energy policy in order to overcome the main challenges.

According to the recent Energy Strategy for 2030, the main problems in foreign energy policy are the following:

1. reduction in demand and cut in prices for energy resources due to the world economic crisis
2. insufficient diversification of sale markets for Russian energy resources
3. preservation of the Russian export dependence on transit countries
4. politicization in energy relationships between Russia and foreign countries
5. low level of Russian energy companies activity at foreign markets

In addition, specifically regarding to gas industry one of the main problems is the high transit risks of gas export to Europe. It can be deduced that the Russian Federation instead of boasting of being a superpower, it is rather fully conscious of its weakness. First of all the dependence on European market: EU accounts for 70

per cent of Russia's gas export sales, whereas only 25 per cent of its needs is filled by Russia. Hence, Moscow is much more dependent on Europe than vice versa. Russia's long-term export dependence is the essential pre-condition for its energy security concerns. Prolonged disruption of its exports or a significant decrease in its volume would undermine the very ability of the Russian government and industry to sustain economic development, eventually threatening national security. Important to point out that energy exports account for about 20 per cent of Russian economy, 55 per cent of export earnings and 40 per cent of their tax revenues. As a prominent energy analyst at the Institute for International and Security Affairs in Germany, Roland Gotz suggests “Moscow can not hit their Western partners in the knees, because they would hurt themselves.”¹⁴⁴ The concept was reasserted in the official papers of Energy Strategy to 2030, where is claimed that “the maintenance of Russia's stable relations with its traditional consumers of energy resources and development of equally stable relations on new energy markets will be one of the key principles”.

On the one hand Russia want to secure European market, as losing it would be a calamity. On the other hand diversification is pivotal – as highlighted at no. 2- and Europe is regarded as an “old” market, with a downward trend . At present, Russia dramatically needs to be perceived as a reliable partner after recent disputes with Ukraine in 2014. Gazprom has already begun diversifying its energy exports to China, Japan and South Korea: president Putin declared “Economic power is shifting from the Atlantic to the Pacific. Growth in those parts of the world is impressive and will not soon come to an end”. Therefore the Kremlin intends to secure its role of the reliable energy supplier¹⁴⁵. According to Energy Strategy to 2030, the proportion of Eastern energy markets in the Russian energy export of oil

144R. Gotz , “*Russia as an Energy partner for Germany*”, Business Guide Deutschland Russland, 2008

145F. Lenoir, “*Energy Minister: Russia has been, is and will be reliable gas supplier to Europe*”, The Moscow Times, 30 October 2014, available at <<http://www.themoscowtimes.com/article/510405.html>> ; S. Dolzhenko, “*Russia to secure its role of reliable energy supplier to Asian markets*” Russian New Agency, 9 December 2014, available at <<http://itar-tass.com/en/economy/766040>>

should grow “from the current 6 to 22 – 22 per cent, while natural gas should grow from 0 to 19 – 20 per cent”. To sum up, Mankoff explains the question: “If they have problems in Europe, that will only make the Chinese intransigent in terms of their position on the price issue”.

Transit states destabilize Russia position of energy exporter, in fact the Energy Strategy up to 2030 includes the statement: “measures will be implemented to reduce transit risk, including further development and improvement of full-scale export infrastructure to ensure reliable supplies of Russian energy to markets”.

In particular, regarding gas industry, risks of gas export to Europe are considered high, therefore the “reduction in dependence of Russia on transit of energy through the territories of adjacent countries” is a top priority in Russian energy agenda.

The argument that Russia uses energy as a foreign policy tool and the rhetoric of Russia as “the villain” is misleading as it leaves out Russian weakness in energy issue. The dependency on transit states, mainly Ukraine and Belarus is one of the biggest concerns of the Kremlin.

As to pipeline security Europeans always judged energy relations from their point of view of consumer: Robert Skinner, Director of the Oxford Energy Institute, argues that the “us and them” approach to energy security, where them is the foreign producers, is a recurrent theme in energy security.

However, these unreliable foreigners are not as untrustworthy as they might appear. They need the stability of relationship as much as the consuming states. By the same token, the empirical record shows that most oil and gas supply interruptions did not involve foreign producers cutting off other countries' consumers. Skinner points out that far more frequently, consumer countries have reduced supply through sanctions and boycotts against producers.¹⁴⁶

As deepens in Chapter IV, Russia more than once fell victim of siphonage.

146R. Skinner, “*Energy Security and Producer-Consumer Dialogue: Avoiding a Maginot Mentality*”, Oxford Institute for Energy Supply, October 2005.

After the string of crises between Russia and the bordering former Soviet republics, the Kremlin simply could not understand why the West had stirred up such a level of accusation against Russia. The Russian leadership became increasingly disillusioned with the West's lack of acknowledgement that their actions violated key Russian national interests. This was evident in the frequent references to what Russia proclaimed as Western double-standards between the West's own behaviour and the expectations the West placed on how Russian should behave .

The words of the Minister of Energy Khristenko fully embody Russian perceptions: “that is why we are deeply puzzled by recent commentary in the West that distorts Russian energy policies.. Yet our actions are consistently misinterpreted. At a time when Russia has embarked on a speedy transition to market principles, we are accused of politicizing the energy issue”¹⁴⁷ .

Similarly Putin (regarding NATO) declared that “ the Nordic Atlantic Bloc is examining issues related to energy security based on the supposition that Russia is clearly unfriendly. We see his. Why this? Have we ever breached our obligations? No.”¹⁴⁸

Likewise, in June 2006, Foreign Minister Lavrov replied to US State Secretary Rice, “I fully support what Rice said – about the necessity to be guided by uniform rules of the game and about these rules being determined by the market. That's a 100 per cent position of the Russian Federation. We will continue, as we have over the last forty years, to ensure the reliability of supplies. We only want that this would be balanced by a reliability of demand, because this is a long-term problem. We want to be certain that our reputation as a reliable supplier who has never

147V. Khristenko, “*Energy collaboration is free from Soviet ghosts*”, Financial Times, 7 May 2006, available at <<http://www.ft.com/intl/cms/s/1/e77fa872-ddeb-11da-af29-0000779e2340.html#axzz3QxCfOPiv>>

148 Transcript of Annual Big Press Conference, The Kremlin, 14 February 2008, available at <http://archive.kremlin.ru/eng/speeches/2008/02/14/1011_type82915_160266.shtml>

violated a single contract, by a single gram or cubic millimetre, is appreciated and that we have reliable consumer partners”.

Russian leadership argues, as do many Europeans politicians and scholars, that Russia is only after stable market relations and economic prosperity via energy exports and downstream business. Commercial interests of Gazprom and the broader interests of the Russian state seem to converge around the aim of maximising the profitability of gas sales to Europe, securing long-term demand and security of export routes to supply this demand. Such interests are tightly bound up with Moscow's self proclaimed “pragmatic” and “economic” foreign policy and the Russian desire that foreign policy should serve the domestic interest of the Kremlin. In fact, the Energy Strategy to 2030 includes a road map, the “foreign energy policy” , where is declared “The objective of the foreign energy policy is the maximum efficient use of Russian energy potential meaning oil and gas export with high prices, secure Russia's position in these markets and finally the gaining of highest possible profit for the national economy”¹⁴⁹.

The main argument is that Russia would not jeopardize its energy relations with EU, its biggest customer, using energy as a leverage for political goals.

In this perspective, all gas spats trace back to the increase of energy prices. Initially after the Soviet breakup- defined by president Putin as “the biggest geopolitical disaster of the century”-, there were no mechanisms to measure the amount of gas and oil consumed by the neighbouring states and their corresponding debts to Moscow. The creation of a new export-import regime among the former Soviet republics turned out to be anything but straightforward. The result was a

¹⁴⁹Energeticheskaya strategiya Rossii na period do 2020 goda, p. 53-54

series of disputes over contractual terms, and when the conflicts could not be resolved, Gazprom opted to cut supply. The early episodes go back to the 1990s when Moscow cut energy supplies to the Baltic States and then paved the way to a succession of such events.

Until 2005 most of the new former Soviet republics that received energy from Russia paid subsidized prices. In contrast to the oil market, there is no one set world price for gas, however gas price is usually connected to the oil price with a six month lag. Each state signs a separate agreement and subsidy price is the result of the European price less the price paid multiplied by the volume imported.

The genesis of the conflicts started in 2005, but already in 2003 the Russian government, approving the Russian Energy Strategy to 2020, expected the gas tariffs to be balanced by European gas market prices. When Gazprom announced that its gas costumers in the former Soviet republics should pay alternative market prices for its gas. At the same time however, Moscow tried to gain control of the energy transport and distribution networks in neighbouring countries. Russia again enacted the policy of stick and carrot, offering moderately priced energy supplies with only gradual increase to neighbouring former Soviet republics that surrendered control over their energy infrastructure. Some countries, generally ones that had poor overall relations with Russia, would have subsidies cut by the end of 2006 (the Baltic states, Georgia and Azerbaijan). The others (Armenia, Moldova, Ukraine and Belarus) would transition to the new system gradually and begin to pay market prices in 2011¹⁵⁰.

This historical background helps to look at energy disputes chronologically. The peak years for energy conflicts were 2006 and 2007 with six and five episodes respectively; a second wave occurred in 2009, with five episodes.

150N. Grib, *"Gazoyi Imperator: Rossiia i Novyi Miroporiadok"*, *Kommersant*, EKSMO, Moscow, 2009.

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 (to 31 July)	Total
Finland										1		1
Norway										1		1
Estonia								1				1
Latvia		1										1
Lithuania							1					1
Belarus					1		1	1			1	4
Ukraine							1			2	1	4
Moldova							1					1
Transnistria					1							1
Poland						1						1
Czech Republic									1			1
Turkey			1									1
Croatia				1								1
Germany								1				1
UK							1					1
Spain									1			1
Italy									1			1
Georgia	1					1	1					3
Azerbaijan								1				1
Turkmenistan					1					1		2
Kazakhstan			1					1				2
Total	1	2	1	1	3	2	6	5	3	5	2	31

Image from R.W. Orttung, I. Overland “A limited toolbox: Explaining the constraints on Russia's foreign energy policy” *Journal of Eurasian Studies* 2 (2011) 74-85.

These figures represent Russia's efforts to impose European prices for its gas sales in post Soviet space. Hence, more often than not disputes between the Kremlin and other states were due to pricing policy. The decision of the Kremlin to get all customers to pay West European prices is the most important change in Russia's use of energy tool. It marks a transition from a policy that sought to win political and ideological support among former Soviet countries through subsidies to a focus on depoliticizing gas sales in favour of trying to extract maximum profits out of them. Importantly, bringing prices up to the West European level will make it possible to finance infrastructure investments inside Russia¹⁵¹.

151S. Pirani, “*Russian and CIS gas markets and their impact on Europe*”, Oxford University Press, 2009, p.3.

Furthermore, the Energy Strategy reports among principal goals, the development of production of natural gas. By 2030, the production will achieve 185-220 billion m³.

Further increase in gas production requires significant investments into production facilities and development of transport infrastructure. Hence, the maximization of profit and the increase in energy prices do not involve only foreign countries, but it also “entails the necessity of increase in domestic gas prices”.

All things considered, many scholars argue that the goal of Russian foreign policy is neither coercion nor political imperialism towards Europe, excluding the geopolitical driver.

According to IEA, no full cut-offs have occurred to Western customers since 1968, when energy deliveries started. Michael Fredholm¹⁵² also claims that no clear examples of purely political use of energy cut offs by Russia exist; Jonathan Stern shares the same opinion, except for the cases in the Baltic countries in the early 1990s. According to him, all known stoppages of deliveries are market driven and a natural consequence of non-payments¹⁵³.

Andrew Monaghan stated that there is not a single case of politically motivated supply interruptions by Russia¹⁵⁴.

Finally, Per Hogselius in his book “Red Gas” debates whether Russia, in the option of turning off the taps, possess an energy weapon pointed at Europe. Interestingly, Hogselius finds no evidence of Moscow ever considering such a course of action.

152M. Fredholm, “*The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?*”, Conflict Studies Research Centre: Russian Series, September 2005.

153J. Stern, “*European Gas Supply and Security Issues*”, *European Dependence on Russian Energy*, Stockholm, September 2005.

154A. Monaghan, “*Russian Oil and EU Energy Security*”, Conflict Studies Research Centre: Russian Series, November 2005.

The Kremlin did see the potential for sowing disunity among NATO countries using energy, but the opportunity was never properly seized.

Finally, a breakthrough in the use of energy from a possible tool of political instrument to a mostly economic issue arises from the comparison of the Energy Strategy to 2020 (formulated in 2003) and Energy Strategy to 2030 (formulated in 2010).

In the Energy Strategy to 2020 it is openly emphasized that Russia's massive energy resources and powerful fuel and energy complex represent “the basis of economic development and the instrument of carrying the internal and external policy”. Moreover the growth in Russian exports is portrayed as a tool for the “strengthening of its economical position and geopolitical influence”. Literally: “The role the country is playing on global energy markets to a great extent defines its geopolitical influence”¹⁵⁵. The most recent version of the official document does not include such a statement.

Analysing both the Energy Strategy to 2030 and the Foreign policy Concept emerged that promoting good neighbourly relations with adjoining states is a key pillar of international cooperation in the sphere of economy. The keyword is rather “re-integration” with EU and CIS countries.

In order to achieve this objective Russia “intends to strengthen its strategic partnership with major producers of energy resources while actively promoting dialogue with consumers and transit states, based on the assumption that measures to ensure the security of energy supplies should be consistently complemented with reciprocal measures to ensure stable demand and reliable transit”. Precisely, in the Annual Press Conference of 2008, Mr. Putin said that “there is not need to whip up fear over Russian aggressiveness because there is not and will not be any such aggressiveness”. While answering whether a Cold War spirit returned to relations between Moscow and Washington, he stressed the point that Russia's main task

¹⁵⁵Energeticheskaya strategiya Rossii na period do 2020 goda, p.4.

nowadays is internal development, resolving social and economic problems and building a “favourable external environment”, developing partnership, alliances and strategic relations. Russians do not have absolutely “any desire to carry on dialogue in an atmosphere of confrontation”. Mr. Putin continues that Russia will never seek confrontation, but will defend its interests.

In conclusion, Russia's economic recovery since 2000, the consolidation of a new authoritarian regime and the energetic European dependence caused commentators to gradually revise their approach to Russia. Prior to Putin Russian state was regarded as corrupt and incapable of domestic order, while currently the idea of Russia as an “energy superpower” which exerts the “energy weapon” has more polemical than analytical content. Even though Russia will remain an influential global energy actor, nonetheless its energy capabilities must be reassess in the light of different factors (emergence of new suppliers, diversification of pipelines). The EU is still dependent on Russian energy, however its ability to use energy as a foreign policy tool will shrink further.

Chapter IV:

Case Study: Ukraine



Image1-2¹⁵⁶

As mentioned in the previous chapter, the watershed in Europe's perception followed the Russia-Ukraine gas spat in 2006: many European governments and large part of the media decided that the shutdown of Russian gas deliveries was something to worry about.

On the contrary, Russia had a different perception at the time: the Kremlin simply could not understand why Europe sided with Ukraine in a conflict where the issue was Ukrainian siphonage of Russian gas and living on Russian subsidies. But why this gas phobia emerged in 2006? And why only after energy row with Ukraine?

156 Cover Der Spiegel, 5 March 2007; Cover The Economist 16 December 2006.

To understand why Western media and governments blamed Russia of using the energy as a weapon of political coercion ever since 2006, it is pivotal to reconstruct the nature of energy relations between Russia and CIS states, in detail with Ukraine. Eventually it's important to examine the individual cases of the so called “gas wars”. In particular the analysis deepens when and why Western media had been quick to demonise the Kremlin and to paint Ukraine as the victim.

As mentioned in the previous chapter, after the breakdown of the Soviet Union, Russian Federation undertook a difficult path of rebuilding its identity, space and borders. This process necessarily involved economically and politically the former Soviet republics. In the last decade many neighbouring post Soviet countries choose to align fully with Russia such as Belarus, Armenia and Tajikistan whereas the three Baltic states have joined the EU and NATO. Other countries walk their own lines, acquiescing and agreeing with Moscow in some areas while parting in others.

The establishment of new relations between Russian Federation and newly independent government was tricky, in particular regarding energy issues.

CIS countries dependent on a high degree on Russian energetic deliveries. They relied almost exclusively on oil and gas from Russia. All pipelines come from Russia, since infrastructure were built during the Soviet period. However, Soviet heritage involves not only pipelines, but also pricing policy of gas deliveries, complicating both political and economic relations between Russian Federation and CIS countries.

Among former Soviet republic, Ukraine enjoys a prominent position because of firstly its geographic position, and secondly because of its high volume of Russian gas imports.

Specifically Ukraine is the largest consumer of Russian gas. Ukraine is the second largest importer of Russian gas after Germany. Natural gas is the primary source of energy in Ukraine: most energy consumption is fuelled by natural gas (about 40%), whereas coal accounts for 28 per cent and nuclear about 18 per cent. The consumption of natural gas is therefore high, whereas the national production only covers 15 per cent of its gas requirements. Therefore the country is forced to import. Ukraine is importing gas currently from both Russia and Turkmenistan. The problem of Ukraine is that it could not afford alternative suppliers.

In addition, relations between Moscow and Kiev are shaped by a geographical factor. In fact Ukraine's geographical position and proximity to Russia explain its salience as a natural gas and petroleum transit country. Ukraine is the main transit country of Russia and Central Asian gas to Europe . Along with Belarus and Moldova, however Ukraine holds a primacy export deliveries with over 80 per cent.

Energy issues have played a key role in Russian-Ukrainian relations since the collapse of the Soviet Union in 1991.

As all CIS countries, Ukraine benefitted from subsidised prices but when Gazprom decided to stop supplying energy at prices far below market rates, diplomatic relations between Russia and Ukraine got icy. After the dissolution of the Soviet Union the reconstruction of energetic balance was nothing that straightforward because the economic slump highlighted the mutual dependence of the two countries.

Disputes arose about pricing policy, accumulation of debts to Russia, domestic non-payments and theft of gas from the transit system. The terms of gas imports and gas transit has been subject to continuing bargaining between Gazprom and

Ukraine government and the trade has proven noticeably difficult.

In particular during the 1990s Ukraine was unable to meet its payment obligations under the then new contracts , and Gazprom repeatedly interrupted energy flow to the country. Ukraine's debts for Russian hydrocarbon deliveries had reached \$ 660 million; this insolvency gave Russia and Gazprom a strong negotiating position.

Despite its high level of debts, Kiev was not defenceless against Russian increasing pressure. In fact, the strategic position of the country makes the Kremlin dependent on Ukrainian pipelines for export to Western Europe. In the mid 1990s, 95 per cent of Russian gas exports and more than 50 per cent of Russian oil exports passed across Ukraine.

The two main pipeline system carrying Russian gas to Western Europe through Ukraine are the Bratsvo and Soyuz pipelines.



The Bratsvo pipeline is Russia's largest pipeline to Europe. It crosses from Ukraine to Slovakia and splits into two directions to supply northern and southern

European countries. The Soyuz pipeline links Russian pipelines to natural gas networks in Central Asia and supplies additional volumes to central and northern Europe. A third major pipeline through Ukraine delivers Russian natural gas to the Balkan countries and Turkey. In the past, disputes between Russia and Ukraine over natural gas supplies, prices, and debts have resulted in interruptions to Russia's natural gas exports through Ukraine, with the latest one occurring in 2009. The 400,000 bbl/d southern leg of the Druzhba oil pipeline transports Russian crude oil through Ukraine to supply most of the oil consumed by Slovakia, Hungary, Czech Republic, and Bosnia. In 2013, about 300,000 bbl/d of throughput transited the pipeline. Russian crude oil and petroleum products also transit Ukraine by rail for export out of Ukrainian ports.

It's important to realize the double way nature of dependence between Ukraine and Russia. Given the several cases of energy disputes (2006-2009 and 2014) and the particular salience of this country for Europe, Russia's relations with Ukraine raised great criticism in the international community and was mainly accepted as an example of Russia's ability to use its energy as a political tool to threaten Ukraine by shutting down energy supplies. Established narratives and stereotypes quickly emerged in the framing of these energy spats. On the other side, when Gazprom in 2004 interrupted gas shipments to Belarus, due to Minsk's non payment, few people in Europe noticed, except Poland.

The 2006 crisis

In December 2005, Gazprom put forward a comprehensive plan for a price rise in order to match market levels of natural gas prices for many former Soviet republics: Georgia, Moldova, Armenia and Ukraine were involved. Ukraine refused to bow to the Russian demands and Gazprom cut gas supplies on January 2006, only to resume it one day later. During the crisis an agreement was reached for

ensuring supplies.

After the cut-off international community strongly criticised Russia, in particular because European countries feared a reduction in deliveries. Russian behaviour was depicted as directed by political motives and the Kremlin was blamed of using its energy reserves as a political weapon. Due to the pro-European government in Kiev, the EU was fully supporting Ukraine and strongly blaming Russia for the crisis. The then European Commission president, José Manuel Barroso claimed to the Brussels Forum “we are seeing more frequently the use of energy resources as an instrument of political coercion”, although without explicitly naming Russia¹⁵⁷.

Many Western analysts taught that Russia wanted to punish Ukraine for its pro-western orientation¹⁵⁸. The U.S. Secretary of State, Condoleezza Rice criticized severely Moscow's actions as “undoubtedly directed by political motives”, and “politically motivated efforts to constrain energy supply to Ukraine”.

The then Ukrainian president Yushchenko in fact was considered western-minded. In addition he won the presidential election in 2004 against Yanukovych who was backed by Russia, in what was termed the “Orange Revolution”¹⁵⁹. Hence according to many, the stoppage was targeted at punish the Ukrainian turn to Western umbrella.

But if punishment for Western leanings caused gas disputes, then it could be assumed that Belarus would not have to deal with gas disputes, since it does not have a Western tilt for which it can be punished. However in 2006, a gas war erupted between Belarus and Russia. And Belarus is the former Soviet republic which has clung the most closely to Russia after the collapse of the Soviet Union. Since 2000, the country has experienced the same sort of natural gas and oil price

157 “EU asks US to help pressure Russia on energy”, The New York Times, available at <http://www.nytimes.com/2006/04/30/business/worldbusiness/30iht-web.0430energy.html>

158 “Rice calls cutoff a political move to punish Ukraine”, The Washington Times, available at <http://www.washingtontimes.com/news/2006/jan/6/20060106-125030-9874r/>

159 The Orange Revolution in November 2004 was a series of protests after the electoral victory of the pro-Russian Yanukovych; the December revote saw the victory of the pro-Western candidate Yushchenko.

hike that less friendly countries. The uniform pricing measures Russia has implemented indicates the extent to which economies underlies the negotiations. Gazprom no longer could afford to subsidize foreign and domestic subsidies.

With the pro-Western variable removed and gas disputes still occurring the punishment hypothesis does not appear viable¹⁶⁰. Additionally, Western media had often been too busy depicting Moscow as an energy blackmailer to report that the price increase was an Ukrainian demand. In detail, in 2005 the Yushchenko administration in 2005 to suggest that gas transit should be moved to European levels and paid in dollars¹⁶¹. Gazprom enthusiastically welcomed the Ukrainian aspirations to ensure maximum transparency.

Hence the rhetoric of Russia as the gas bear and Ukraine as the victim is misleading, and leads to further misperception as the risk of oversimplification is high.

Furthermore, Russia was blamed of putting Ukraine in a bad light since Gazprom claimed that Ukraine siphoned Russian gas aimed for the European market. According to this view, the charge was made firstly to depict Ukraine as an unreliable partner in an European energy trade, and secondly to remove Western intention to include Ukraine in NATO¹⁶². However, Ukraine admitted that it had taken some¹⁶³: the state-owned Naftogaz energy firm had been withholding some Russian gas exports destined for Europe. The gas of flow of gas would be resumed once the Ukrainians agreed to pay the market price¹⁶⁴.

The conflict was commercial and must be seen as part of the painful transition of

160 J. Ringhausen, *“Refuting the media: punishment and the 2005-2006 gas dispute”*, University of North Carolina, 2007.

161 “On Alexey Miller's meeting with Ivan Plachkov and Alexey Ivchenko”, available at <<http://www.rustocks.com/index.phtml/Pressreleases/GAZP/18/7338?print=y>> and <<http://www.gazprom.com/press/news/2005/march/article63040/>>

162 T. Voznyak, *“What is Putin trying to achieve? The geopolitical aspect of Russia's gas counter-offensive”*, available at <<http://www.ji-magazine.lviv.ua/engl-vers/position-en.htm>>

163 *“Neftogaz Ukrainy admits withholding Russian gas exports to Europe”* Gas and Oil, 23 January 2006, available at <<http://www.gasandoil.com/news/russia/8356af9c776325db17d8a772585f7323>>

164 M. Goldman, *“Petrostate: Putin, Power and the New Russia”*, Oxford, Oxford University Press, 2010.

energy trade relations to a more market based energy trade.

The 2009 crisis

The same dynamic has repeated itself in 2009. An energy conflict fuelled widespread scholarly and media commentary attributing Russian actions to strategic considerations, a desire for profit and corruption. As in 2006, the crisis due to increasing prices led once more to disruptions in supplies. However, the onset of the 2008 financial crisis put both Ukraine and Russia in very delicate positions. The situation degenerated and, as no agreement could be arranged, the Kremlin decided to halt the gas supply for Ukraine. Only twenty three days later the gas started flowing again for Ukraine. The effects of the 2009 gas spat were more severe than those of 2006: the shortage in winter caused humanitarian consequence in Eastern Europe countries.

Once again, the often cited desire of the Russian Government to use energy as a political weapon against European countries played any part in this crisis. As in 2006, many taught that the dispute was targeted against Yushchenko. The previous year in fact Ukraine's president supported Georgia in its war against Russia and showed interest in seeking integration with Western institutions such as NATO and EU¹⁶⁵. Western critics of Putin tend therefore to assume that everything Moscow does today is geopolitically motivated. This assumption has led to undervalue the importance of commercial considerations in Kremlin's decision making.

First of all the fall in European gas prices that resulted from lower oil prices, had impact on Gazprom's export revenue. The fall in world oil prices, from a high of

165 J. Mankoff, *"Russian Foreign Policy, the Return of Great Power Politics"*, Rowman&Littlefield, 2011, p.252.

\$147 in July 2008 to about \$48 in January 2009 had been painful for Moscow, as it received about half of its budget revenues from export. Secondly along with the global economic crisis, the competition from liquefied natural gas from the Persian Gulf and the increased volume of gas production in the U.S., in 2009 the gas export to Europe fell by 12 per cent¹⁶⁶. Thirdly the problems were amplified by the crisis with Central Asian gas. The business of re-selling Turkmen gas was marginally profitable already in 2007, but from the beginning of 2008 Gazprom had to agree to buy central Asian gas at European price¹⁶⁷. Gazprom's decision to accept a higher price for Turkmen gas supplies, therefore triggered an increase in gas price also for Kiev.

Under these conditions, it was to be expected that Gazprom would drive as hard as possible a bargain on Ukraine's outstanding debts and on prices and transit fees. Moreover Moscow's decision to cut back deliveries probably reflected anger and frustration for Ukraine repeated threats to disrupt transit. It seems that Europe used a double standard related to the principle of market economy: "Ukraine has not paid up and this is a scandal again, and Russia has every right to demand every penny," said Dmitry Trenin, director of the Carnegie Moscow Center think tank, at round table on the dispute.

On the other side, Ukraine was desperate not to pay more for gas deliveries due to the failing economic situation. "We are struggling with the consequences of the world economic crisis, but it does not mean that Russian taxpayers have to sacrifice in order to keep Ukrainian production alive" said Dmitry Peskov, Prime Minister Vladimir Putin's spokesman.

In addition the crisis developed in the middle of a power struggle for the future presidency between Yushchenko (the then President) and Timoshenko (the then

166 "Russia plans to increase gas exports to EU to 160 Bcm this year", Gas Matters Today, 21 January 2010, available at <<http://www.gasstrategies.com/node/45982/text>

167 "The Report: Ukraine 2008", Oxford Business Group, p.72.

Prime Minister), whose aim was to use the dispute to score domestic political points with the Ukrainian electorate. Gazprom press secretary Kuprianov said “The main problem was not that we disagreed on the price of gas but that the Naftogaz delegation did not have a mandate to sign a new contract”¹⁶⁸. According to Lukyanov, an editor of the journal “*Russia in Global Affairs*”, Ukraine believed that the longer the conflict dragged on, the more the blame would be laid on Russia, which would give Ukraine a position of strength in negotiating.

In fact, during the dispute Ukraine had seemed far less interested in reaching an agreement than Russia. While Russian leaders have been on TV almost every day during the crisis, Ukraine President Viktor Yushchenko and Prime Minister Yulia Tymoshenko have been nearly invisible. And Ukraine's stability seems to be threatened more by its chronic political paralysis than by a cutoff of gas from Moscow.

The 2014 events

In June 2014, Gazprom halted its natural gas gas to Ukraine after complaining that Kiev had failed to pay off its huge debts. Putin and Yanukovich had agreed on a special gas price on December 2013; this was part of a rescue package suggested by the Kremlin for macroeconomic stabilization, a load which easily induced Yanukovich not to sign the Association Agreement with the EU. The Euromaidan revolution and the change of government drove Moscow to withdraw the promised loan. The Kremlin took a tough stance vis-à-vis Ukraine, and the Russian gas giant Gazprom asked the repayment of Ukrainian debt, estimated \$4.5 billion¹⁶⁹. Many talks between Russia and Ukraine had failed, but since the repayment asked had not been received, Gazprom turned off the taps.

In the meantime European “gas phobia” spread rapidly, and Europe were anxious

168 “*Sergey Kupriyanov's Statement Regarding Negotiations with Naftogaz*”, GazpromUkraineFacts, 1 January 2009, available at < <http://www.gazpromukrainefacts.com/ukraine-gas-dispute-timeline/2009/2009-01-01/sergey-kupriyanovs-statement-regarding-negotiations>>

169 www.gazpromukrainefacts.com

to ensure secure gas supplies for the winter. European Energy Commissioner Gunther Oettinger warned “there will be big risks, above all the possibility of Ukraine taking gas to meet its own needs, instead of those supplies going to European customers”¹⁷⁰. Gazprom CEO Alexei Miller confirmed that the company remains committed to delivering all contracted gas volumes to Europe, while secure gas transit to Europe remains Ukraine's responsibility. Winter 2014-2015 has almost come to end without energy disruption to Europe: probably the energy leverage is more psychological than material.

After months of trilateral gas negotiations between EU, Ukraine and Russia an agreement was reached in October; the agreed protocol safeguarded the security of gas supply until March 2015, and Ukraine accepted to carry out the payment, before deliveries took place.

Eventually Gazprom spokesperson, Sergey Kupriyanov, said: "Today's agreement is an important step in preventing gas supply disruptions in Europe this winter. It is a compromise and Gazprom has shown substantial flexibility to make this deal possible. Gazprom is and will be a reliable gas supplier for Europe. The agreement also sends a clear message that signed agreements have to be respected and payment obligations must be fulfilled. This is hopefully the start of a new, more constructive chapter in gas relations among the EU, Russia and Ukraine. With relations based on equal sharing of risks and respect of contractual obligations”¹⁷¹.

Analysing the up-mentioned facts, it is important to highlight that energy underpayments and the request to pay the full price for gas exports without a discount were at the base of the conflicts.

170 “*Russia warns EU of Ukraine gas shortage*” BBC News Europe, 29 August 2014, available at <<http://www.bbc.com/news/world-europe-28979642>>

171 <http://www.businessinsider.com/afp-eu-warns-russia-not-to-use-gas-as-weapon-in-ukraine-crisis-2014-9#ixzz3OjtUxGkQ>

As said before, from 2005 onwards, Gazprom has been abolishing its system of imperial preferences which had let various former Soviet countries to import Russian gas at hugely discounted prices. Although many outsiders depicted this policy towards CIS countries as an attempt to strangle independent and Western oriented governments, actually it was a desperate and fairly heavy handed effort to make Ukraine pay more adequate price for the hydrocarbons it consumed. The new approach in fact applied across the board, from Ukraine to Belarus and Armenia. No one was spared, even Kremlin's closest ally Belarus.

Moreover one can argue that subsidised gas prices represent a more credible instrument of political leverage than world-level prices, which require no payment in kind. Purely market-based, transparent pricing mechanism will develop a healthier Ukrainian economy . In the opinion of the chairman of Russian Council for Defence and Foreign Policy the transition to market prices means the abandonment of paternalism and the treatment of Ukraine as a completely sovereign state. Hence, the shift in pricing policy also contributes to Ukraine's further independence .

On the other hand, in the past, Moscow's earlier cheap energy prices were also viewed negatively as attempts to “buy” Ukraine. When in 2003, Belarus, Kazakhstan and Ukraine signed the SES Treaty¹⁷² with Russia, again Kremlin's policy was criticised as undermining the countries' independence. Therefore, Western criticism seems to be unavoidable.

Finally, even if energy is also a political matter, it is business first and last. Economic benefits are the main criteria of foreign policy orientation. First of all because Russia highly depends on energy revenues, hence Gazprom needs high prices, new markets for exports and capitals to invest in infrastructure and technological development of the energy sector. One of the main goal of Energy

¹⁷² The Ses Treaty, literally Single Economic Space, was to create a single regional market within the participating states. The treaty included free movements of goods, harmonization of legislation and currency union.

Strategy to 2030 is “to set up innovative and efficient energy sector”. “An innovative approach implies a continuous process of search and application of new scientific and technical, technological, organizational and economic solutions under state regulations”. Hence, the updating of the country's energy sector is pivotal and requires to improve the efficiency of reproduction, extraction and processing of energy resources.

Moreover, not only gas disputes cause Gazprom billions of dollars in both profit and contract violation fees, damaging Russian state budget, but also Gazprom must earn back the fixed costs of building the pipelines as it is “not economically or commercially possible to generate the investment for such costly infrastructure without robust arrangements for recouping it”¹⁷³.

Secondly the Kremlin understood that using energy lever and being a reliable supplier can not coexist. The “energy weapon” rather than boost Russian prestige and authority, it had stoke anxiety and driven countries to seek alliances and take other steps to protect themselves from Moscow pressure. The disputes with Ukraine, in particular 2009, resulted in a large shadow over Moscow's reputation for reliability. The crisis exposed the self-defeating character of energy weapon.

Russia's aggressive stance towards the Baltic states drove these countries more quickly into the arms of NATO and the EU. Belarus's dependence is already at a critical phase, and Ukraine is likely to follow soon. Kazakhstan may remain under Russian influence because of the Customs Union, but Central Asia seems to fall within the reach of China.

173 A. Medvedev , “*Is gazprom's strategy political?*”, Europe's World, 1 June 2008, available at <
<http://europesworld.org/2008/06/01/is-gazproms-strategy-political/#.VL-LK1oVPrQ>>

In conclusion to fully comprehend energy conflict and energy relations with Russia, all these economic factors can not be underestimated. Otherwise problems of misperception and misunderstanding may rise. And according to Putin's Deputy Press Secretary in 2006, Dmitry Peskov this is what occurred in Western press and governments. He noted that “the situation surrounding the conflict between Gazprom and Ukraine probably showed that we are not always understood correctly”¹⁷⁴. The Kremlin felt that EU preferred to see Russia as the threats, turning the foreign affairs in a comedy of the absurd; and EU countries “had often used problems with transit countries to reinforce fears about Russia” said the Russian president's special envoy for relations with the European union until 2008 Sergey Yastrzhembsky. The logic that treat any Russian behaviour in energy issues as a threat to the West as a sign of authoritarianism, of an energy war should be forsaken. The rhetoric of the “authoritarian gas bear from the East”, who feeds on fledging democracies only augments Russian frustration and proves itself to be an ineffective approach in the comprehension of energy disputes.

174 C. Bigg, “*Russia: Kremlin Hoping to Speak West's Language*”, Radio Free Europe, 9 June 2006, available at <<http://www.rferl.org/content/article/1069033.html>>

Bibliography

Books, encyclopaedias and reports

1. Aalto P., “*European perspectives for managing Dependence*”, *Russian energy power and foreign relations*, CSS Studies in Decurity and International Relations; Oxon: Routledge, 2009.
2. Alekperov V., “*Oil of Russia: Past, Present and Future*”, East View Press, Minneapolis, 2011.
3. Allison R., Light M. , White S., “*Putin's Russia and the Enlarged Europe*”, Chatam House Papers, Oxford, Blackwell, 2006.
4. Aslund A., McFaul M., “*Revolutions in Orange: the origins of Ukraine's democratic breakthrough*”, Carnegie Endowment, 2006.
5. Baldwin D., “*Power Analysis and World Politics: New Trends Versus Old Tendencies*”, *World Politics*, Vol. 31, 1979.
6. Baev P.K., “*Russian energy policy and military power. Putin's quest for greatness*”, Routledge, 2008.
7. Baran Z., “*EU Energy Security: Time to End Russian Leverage*” , *The Washington Quaterly*, 2007.
8. Beller M., Leerseen J.T., “*Imagology. The cultural construction and literary representation of national characters*”, Rodopi, Amsterdam, 2007.
9. Bochkarev D., “*Russian Energy Strategy in Making; General Trends and Political Implication*” , *Presses Universitaires De Louvain*, 2005.
10. Bremmer I. , “*The end of the Free Market*” , New York, Penguin Group, 2010.
11. Bugajski J., “*Dismantling the West: Russia's Atlantic Agenda*”, Potomac Books, 2009.

12. Chandler A. , *“Democracy, Gender and Social Policy in Russia: A Wayward Society”* , Palgrave Macmillan, 2013.
13. Cleveland C.J., *“Concise Encyclopedia of the History of Energy”*, Elsevier Inc., 2009.
14. Collins A., *“Contemporary Security Studies”*, Oxford University press, 2010.
15. Dannreuther R., *“International Relations Theories: Energy, Minerals and Conflict”* Polinares, EU Policy on Natural Resources, 2010.
16. Dellecker A., T. Gomart, *“Russian Energy Security and Foreign Policy”*, Routledge, New York, 2011.
17. Di Nolfo E., *“Storia delle elezioni internazionali”*, Laterza, Roma, 2008.
18. Dixon S., *“Organizational Transformation in the Russian Oil Industry”* , Cheltenham , Edward Elgar Publisher, 2008.
19. Donaldson R.H, Noguee J.L., *“The Foreign Policy of Russia: Changing Systems, Enduring Interests”*, M:E. Sharpe, 2002.
20. Drezner D. W., *“The Sanctions Paradox: Economic Statecraft and International Relations”*, Cambridge, Cambridge University Press, 1999.
21. Ellison H.J., *“Boris Yeltsin and Russia's Democratic Transformation”* , University of Washington Press, 2006.
22. Ferrari A., *“Oltre la Crimea. Russia contro Europa?”*, Istituto per gli Studi di Politica Internazionale, 2014.
23. Gaddy C. , Ickes B., *“Russia's addiction: The political economy of resource dependence”*, Brookings Institution Press, 2008.
24. Gaidar Y., *“Collapse of an Empire: Lessons for Modern Russia”*, Washington, Brookings Institution Press, 2007.
25. Gill G., *“Routledge Handbook of Russian Politics & Society”* ,Routledge, 2013.

26. Goldman M. I., “ *Petrostate: Putin, Power and the New Russia* ”, Oxford, Oxford University Press, 2010.
27. Goldthau A., Witte J.M., “ *Back to the future or forward to the past? Strengthening markets and rules for effective global energy governance* ”, International Global Affairs 85, 2009.
28. Gotz R., “ *Russia as an Energy partner for Germany* ”, Business Guide Deutschland Russland, 2008.
29. Grace J.D., “ *Russian Oil Supply, Performance and Prospects* ”, Oxford, Oxford University Press, 2005.
30. Grib N., “ *Gazoyi Imperator: Rossiia i Novyi Miroporiadok* ”, Kommersant, EKSMO, Moscow, 2009.
31. Hill F., “ *Beyond Codependency: European Reliance on Russian Energy* ” in U.S.-Europe Analysis Series, July 2005.
32. Hoffman D. E., “ *The Oligarchs: Wealth and Power in the New Russia* ”, Public Affairs, 2011.
33. Hogselius P, “ *Red Gas: Russia and the Origins of European Energy Dependence* ”, Palgrave Macmillan, 2013.
34. Jack A., “ *Inside Putin's Russia: Can There Be Reform Without Democracy?* ”, Oxford University Press, 2004.
35. Jaffe A. M., Soligo R., “ *The militarization of Resource Management* ”, Routledge, 2008.
36. Jonson L., “ *Vladimir Putin and Central Asia: The Shaping of Russian Foreign Policy* ”, I.B. Tauris, 2004.
37. Kaganskij V.L., “ *La Russia esiste ancora?* ”, Limes “La Russia Sovrana” , Gruppo Editoriale L'Espresso 2010.

38. Katchanovski I., A.R. Morley, *“Politics of Miscommunication”, “Politics and Virtual Reality”*, Political Science Association, 2009.
39. Kelanic R., *“Comments on the impact of Fossil Fuels on Security”*, Religh, NC: Triangle Institute for Security Studies, 2011.
40. Klare M. T., *“Resource Wars: The New Landscape of Global Conflict”*, New York, Henry Holt and Company LLC, 2001.
41. Klare M.T., *“Rising Powers, Shrinking Planet”*, Metropolitan Books, 2008.
42. Klare M. T., *“The race for What's Left: The Global Scramble for the World's Last Resources”*, Metropolitan Books, 2012.
43. Liberman P., *“Trading with the Enemy: Security and Relative Economic Gains”*, International Security, Vol. 21, 1996.
44. Limes, *“La Russia Sovrana”*, Gruppo Editoriale L'Espresso, Marzo 2010.
45. Limes, *“L'Ucraina tra noi e Putin”*, Gruppo Editoriale L'Espresso, Aprile 2014.
46. Limes, *“La Russia in Guerra”*, Gruppo Editoriale L'Espresso, Dicembre 2014.
47. Lo B., *“Axis of Convenience: Moscow, Beijing and the New Geopolitics of Energy”*, Brookig Press, 2008.
48. Lo B., *“Russian Foreign Policy in the Post-Soviet Era: Reality, illusion and Mythmaking”*, Palgrave Macmillan, 2002.
49. Locatelli C., Rossiaud S., *“A Neoinstitutionalist Interpretation of the Changes in the Russian Oil Model”*, Energy Policy 39, September 2011.
50. Lucas E. , *“The New Cold War: Putin's threat Russia and the West”*, New York, Palgrave MacMillan, 2014.
51. Magaril E.R, Brebbia C. A., Khodorovsky M.Y., *“Energy Production and Management in the 21st Century: The Quest for Sustainable Energy”* ,

- Southampton, WIT Press, 2014.
52. Mankoff J., *“Russian Foreign Policy: The Return of Great Power Politics”*, Rowman&Littlefield, 2011.
 53. Mankoff J., *“Vladimir Putin and the Re-Emergence of Russian Foreign Policy”*, International Security Studies, 2006.
 54. Maull H., *“Oil and Influence: The Oil Weapon Examined”*, London, International Institute for Strategic Studies, 1975. Print. 1-2.
 55. McCann L., *“Russian Transformations: Challenging the Global Narrative”*, BASEES/ Routledge Series on Russian and East European Studies, 2004.
 56. McFaul, Stoner-Weiss K., *“The Myth of the Authoritarian Model”*, Foreign Affairs, February 2008.
 57. Moan J.L., Smith Z.A. , *“Energy Use Worldwide: A Reference Handbook”* , ABC-CLIO, 2007.
 58. Morgentahu J., *“Politics Among Nations The Struggle for Power and Peace”*, New York: A.A. Knopf, 1948.
 59. Nicchia G., *“The energy issue in Eu-Russia relations”*, Napoli, Editoriale Scientifica, 2008.
 60. Nyrgen B., *“The Rebuilding of Greater Russia: Putin's Foreign Policy Towards the CIS Countries”*, New York, Routledge, 2008.
 61. Orban A., *“Power, Energy, and the New Russian Imperialism”* , Praeger Security International, 2008.
 62. Papava V., *“The End of the Frozen Cold War?”* ,Caucasian Review of International Affairs, Vol. 3 (1), 2009.
 63. Parra F., *“Oil and Politics. A modern history of petroleum”*, I.B. Tauris, New York, 2004.

64. Perovic J., Orttung R.W., Wenger A. , “*Russian Energy Power and Foreign Relations*”, Routledge, 2009.
65. Pirani S., “*Ukraine's gas sector*”, Oxford Institute for Energy Studies, June 2007.
66. Pirani S., “*Russian and CIS gas markets and their impact on Europe*” , Oxford University Press, 2009.
67. Pirani S., Henderson J., Rogers H., Yafimava K., “*What the Ukraine crisis means for gas markets*”, The Oxford Institute for Energy Studies, March 2014.
68. Pirani S., Stern J., Yafimava K., “*The Russo-Ukrainian gas dispute of January 2009: a comprehensive assessment*” ,The Oxford Institute for Energy Studies, February 2009.
69. Putin V. , “*Mineral Raw Materials in the strategy for Development of the Russian Economy*”, Notes of the Mining Institute, St. Petersburg, January 1999.
70. Ross C. , “*Russian Politics Under Putin*”, Manchester University Press, 2004.
71. Roxburgh A., “*The Strongman: Vladimir Putin and the Struggle for Russia*”, I.B. Tauris, 2013.
72. Rutland P., “*Russia as an Energy Superpower*”, New Political Economy, Vol. 13 No. 2, June 2008.
73. Ryan W.J. , ““Oil Weapon” of Arabs Stronger than Armies”, *Abilene Reporter News*, November 23, 1973.
74. Sakwa R., “*Putin: Russia's Choice*”, Routledge, 2004.
75. Sakwa R., “*New Cold War or Twenty Years' Crisis? Russia and International Politics*”, *International Affairs* 84, no.2, 2008.
76. Seely R., “*The Russian-Chechen Conflict 1800-2000: A Deadly Embrace*”,

Routledge 2001.

77. Sergi B. S., *“Misinterpreting Modern Russia: Western Views of Putin and his Presidency”*, Bloomsbury, 2009.
78. Shaffer B., *“Energy Politics”*, University of Pennsylvania Press, 2009.
79. Shevtsova L., *“Putin's Russia”*, Carnegie Endowment for International Peace, 2010.
80. Shevtsova L., *“Russia- Lost in Transition”*, Carnegie Endowment for International Peace, 2007.
81. Shoesmaker M. W., *“Russia and the Commonwealth of independent States 2014”*, Rowman & Littlefield, 2014.
82. Smith C. S., *“Russian Energy Politics in the Baltics, Poland and Ukraine”*, Center for Strategic and International Studies, CSIS Press, 2004.
83. Smith C. S. , Hadfield A., Dunne T. , *“Foreign Policy :Theories,Actors, Cases”*, Oxford University Press, 2008.
84. Smith Stegen K., *“Deconstructing the energy weapon: Russia's threat to Europe as case study”*, Energy Policy 39.
85. Sovacool B.K., *“Energy Security”*, Sage Publications, 2014.
86. Stern J., *“European Gas Supply and Security Issues”*, European Dependence on Russian Energy, Stockholm, September 2005.
87. Stern J., *“The Russian-Ukrainian gas crisis of January 2006”*, The Oxford Institute for Energy Studies, 2006.
88. Stern J., *“Soviet oil and gas exports to the West”*, Aldershot: Gower Publishing Company, 1987.
89. Stern, R., *“Oil Market Power and United States National Security.”* PNAS

103, no. 5, 2006.

90. Stokes D., Raphael S., *“Global Energy Security and American Hegemony”*, The Johns Hopkins University Press, 2010.
91. Stuermer M., *“Putin and the Rise of Russia”*, Orion Books, 2008.
92. Stulberg A. N., *“Well Oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia”*, State University of New York, New York, 2007.
93. Sutela P., *“The political Economy of Putin's Russia”*, New York, Routledge 2012.
94. Tsygankov A.P., *“Russophobia: Anti-Russian Lobby and American Foreign Policy”*, Palgrave Macmillan, 2009.
95. Ullman R. H., *“Redefining Security,”* The MIT Press, International Security , Vol. 8, No. 1, Summer, 1983.
96. Verbong G., Loorbach D., *“Governing the Energy Transition: Reality, Illusion or Necessity?”*, New York, Routledge, 2012.
97. Victor D. G. , Jaffe A. M. , Hayes M. H., *“Natural gas and geopolitics from 1970 to 2040”*, Cambridge, Cambridge University Press, 2006.
98. White S., *“Putin's Russia and the Enlarged Europe”* ,Chatam House Papers. Oxford, Blackwell,2006.
99. White S. , *“Understanding Russian Politics”*, Cambridge University Press, 2011.
100. Williams P.D., *“Security Studies: An Introduction”*, Routledge, 2008.
101. Wood T., *“The Putin Era”*, New Left Review, March-April 2007.
102. Yergin D., *“The Prize: The Epic Quest for Oil, Money and Power”*, New York, Free Press, 1992.

103. Yergin D., *“The Quest: Energy, Security and the Remaking of the Modern World”*, New York, Penguin Books, 2011.

104. Zakaria F., *“The Post American World”*, New York, W.W Norton & Company, 2011.

Online resources

1. Adomelt H., *“Inside or Outside? Russia's Policies Towards NATO”*, Annual Conference of the Centre for Russian Studies at the Norwegian Institute of International Affairs, Oslo, 2006. Web. Retrieved from: http://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/NATO_Oslo_ks.pdf

2. Astrov V., *“Current State and Prospects of the Russian Energy Sector”*, The Vienna Institute for International Economic Studies, June 2010. Web. Retrieved from: wiiw.ac.at/current-state-and-prospects-of-the-russian-energy.sector-3.pfd

3. Baev p., Bartuska V., Cleutinx C., Gaddy C., Gotz R., Gros D., Ickes B., Konoplyanik A., Kosachev K., Mitrova T., Piebalgs A., Piper J., Swieboda P., Trenin D., Yastrzhembskky S., *“Pipelines, Politics and Power”* edited by K. Barysch, Centre For European Reform, London, October 2008. Web. Retrieved from: http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2011/rp_851-271.pdf

4. Baldwin D., “*Power Analysis and World Politics: New Trends Versus Old Tendencies*”, *World Politics*, Vol. 31, 1979. Web. Retrieved from: [http://www.princeton.edu/~dbaldwin/selected%20articles/Baldwin%20\(1979\)%20Power%20Analysis%20and%20World%20Politics.pdf](http://www.princeton.edu/~dbaldwin/selected%20articles/Baldwin%20(1979)%20Power%20Analysis%20and%20World%20Politics.pdf)
5. Baumann F., “*Energy Security as multidimensional concept*”, Research Group on European Affairs, March 2008. Web. Retrieved from: <http://www.cap.lmu.de/download/2008/CAP-Policy-Analysis-2008-01.pdf>
6. Bayulgen O., “*Foreign Investment, Oil Curse and Democratization: A Comparison of Azerbaijan and Russia*”, APSA meeting, 2005. Web. Retrieved from: <http://ebooks.z0ro.com/ebooks/Articles/Azerbaijan%20Oil%20Curse%20Baylugen.pdf>
7. Bilgin M., “*Energy security and Russia's gas strategy: The symbiotic relationship between the state and firms*”, *Communist and Post Communist Studies* 44, Elsevier, May 2009. Web. Retrieved from: <http://www.infona.pl/resource/bwmeta1.element.elsevier-abe4d0ef-896c-34a5-ba6b-f69f3bc65925>
8. Bigg C., “*Russia: Kremlin Hoping to Speak West's Language*”, Radio Free Europe, 9 June 2006. Web. Retrieved from: <http://www.rferl.org/content/article/1069033.html>
9. Bindenagel J.B., “*Countering Russia's policy of Fear and Intimidation*”, Newsroom De Paul Experts, 18 September 2008. Web. Retrieved from: http://www.newsroom.depaul.edu/DePaulExperts/FacultyOPED/FacultyOPED_46_4102_10912.html
10. Bos M.A., “*Gazprom: Russia's nationalized political weapon and the implication for the European Union*”, Georgetown University, Washington, April 2012. Web. Retrieved from: http://m.repository.library.georgetown.edu/bitstream/handle/10822/557642/Bos_georgetown_0076M_11565.pdf?sequence=1

11. Boykewich S., “*Cheney says liberty at risk in Russia*”, The Moscow Times, 5 May 2006. Web. Retrieved from:
<<http://www.themoscowtimes.com/sitemap/free/2006/5/article/cheney-says-liberty-at-risk-in-russia/205172.html>>
12. Cooper W.H., “*Russia's Economic Performance and Policies and their implication for the U.S*”, CRS Report for Congress, 2009. Web. Retrieved from: <http://www.fas.org/sgp/crs/row/RL34512.pdf>
13. Dannreuther R., “*International Relations Theories: Energy, Minerals and Conflict*”, Polinares, September 2010. Web. Retrieved from:
http://www.polinares.eu/docs/d1-1/polinares_wp1_ir_theories.pdf.
14. De Micco P., “*A cold winter to come? The EU seeks alternatives to Russian gas*”, Directorate General for External Policies, Policy Department, European Parliament, October 2014. Web. Retrieved from:
[http://www.europarl.europa.eu/RegData/etudes/STUD/2014/536413/EXPO_STU\(2014\)536413_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2014/536413/EXPO_STU(2014)536413_EN.pdf)
15. Demkiv A., “*Political instability in petrostates: the myth or reality of oil revenue as petrostate stabilizer*”, The State University of New Jersey, May 2012. Web. Retrieved from: <https://rucore.libraries.rutgers.edu/rutgers-lib/37303/pdf/1/>
16. Dolzhenko S., “*Russia to secure its role of reliable energy supplier to Asian markets*”, Russian New Agency, 9 December 2014. Web. Retrieved from:
<http://itar-tass.com/en/economy/766040>
17. Ebel R. E., “*The Geopolitics of Russian Energy: looking Back, Looking Forward*”, Center for Strategic and International Studies, July 2009. Web. Retrieved from:csis.org/.../090708_Ebel_RussianEnergy_Web.pdf
18. Edwards J., Chairs J. K., “*Russia's wrong direction: what the U.S. can and*

should do”, Council on Foreign Relations, 2006. Web. Retrieved from:
www.cfr.org/content/.../Russia_TaskForce.pdf

19. Fredholm M. , “*The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?*”, Conflict Studies Research Centre: Russian Series, September 2005. Web. Retrieved from:
[www.da.mod.uk/colleges/.../russian/05\(41\)-MF.pdf](http://www.da.mod.uk/colleges/.../russian/05(41)-MF.pdf)
20. Freeland C., “ *Sale of the Century: Russia's Wild Ride from Communism to Capitalism* ” , Crown Business , 2000.
21. Ghaleb A., “*Natural Gas as an instrument of Russian state power*”, Strategic Studies institute, U.S. Army War College, October 2011. Web. Retrieved from:
<http://www.strategicstudiesinstitute.army.mil/pdf/PUB1088.pdf>
22. Gilbert S., “*Gas Politics in Russia and the EU*”, Journal of Politics and International Affairs, Spring 2009. Web. Retrieved from:
www.nyu.edu/clubs/jpia.club/.../S09_Gilbert.pdf
23. Goldthau A., “*Resurgent Russia? Rethinking Energy Inc.*”, Policy Review, March 2008. Web. Retrieved from:
<http://www.hoover.org/research/resurgent-russia-rethinking-energy-inc>
24. Hafner M., “*Russian Strategy on Infrastructure and Gas Flow to Europe*”, Polinares , EU Policy on Natural Resources, European Research Area, December 2012. Web. Retrieved from: http://www.polinares.eu/docs/d5-1/polinares_wp5_chapter5_2.pdf
25. Hill F., “*Energy Empire: Oil, Gas and Russia's Revival*”, The Foreign Policy Centre, September 2004. Web. Retrieved from:
fpc.org.uk/fsblob/307.pdf
26. Hill F., Fee F., “*Fueling the future: The prospects of Russian Oil and Gas*”, Demokratizatsiya, Vo. 10, Number 4, 2002. Web. Retrieved from:
http://www.brookings.edu/views/papers/hillf/200205_demokratizatsiya.pdf

27. Ivaniv V., *“Russia emerging as energy powerhouse”*, Johnson Russia List, 13 June 2003. Web. Retrieved from:
<http://www.russialist.org/archives/7222-5.php>
28. Kononczuk W., *“Russia's Best Ally: the situation of the russian oil sector and forecasts for its future”*, Centre for Eastern Studies, Warsaw, April 2012. Web. Retrieved from: aei.pitt.edu/58390/1/prace_39_en_0.pdf
29. Kononczuk W., *“The Yukos Affair: its Motives and Implications”*, Centre for Eastern Studies, Warsaw, 2006. Web. Retrieved from:
http://www.osw.waw.pl/sites/default/files/prace_25.pdf
30. Korchagina, *“A whiz ar black PR stirs up a storm”*, The Moscow Times, 5 August 2003. Web. Retrieved from:
<http://www.themoscowtimes.com/news/article/a-whiz-at-black-pr-stirs-up-a-storm/236745.html>
31. Korchemkin M. , *“Gazprom may be seriously hurt by the Crimean Conflict”*, Natural Gas Europe, March 2014. Web. Retrieved from:
<<http://www.naturalgaseurope.com/gazprom-russia-ukraine-crimean-conflict>>
32. Kovalev S., *“Putin's War”*, The New York Review of Books, 10 February 2000. Web. Retrieved from:
<http://www.nybooks.com/articles/archives/2000/feb/10/putins-war/?page=1>
33. Khristenko V., *“Energy collaboration is free from Soviet ghosts”*, Financial Times, 7 May 2006, available at <<http://www.ft.com/intl/cms/s/1/e77fa872-ddeb-11da-af29-0000779e2340.html#axzz3QxCfOPiv>>

34. Kropatcheva E., “*He who has the pipeline calls the tune? Russia's energy power against the background of the shale revolutions*”, Energy Policy, Vol. 66, Elsevier, March 2014. Web. Retrieved from:
http://fmv.euba.sk/files/3_He_who_has_the_pipeline_calls_the_tune_.pdf

35. Kropatcheva E., “*Russian Foreign Policy towards Ukraine: a Case of New Imperialism?*”, Centre for OSCE Research, Institute of Peace Research and Security Studies, Hamburg, 2006. Web. Retrieved from:
http://www.miamioh.edu/cas/_files/documents/havighurst/orienting/kropatcheva.pdf

36. Kupchinsky R., “*The Dismantling of Russian Oil Giant Yukos*”, Radio Free Europe, 19 October 2014. Web. Retrieved from:
<http://www.rferl.org/content/article/1055405.html>

37. Larsson R. L., “*Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Power*”, FOI-Swedish Defence Research Agency, March 2006. Web. Retrieved from:
<http://storage.globalcitizen.net/data/topic/knowledge/uploads/20110731213514705.pdf>

38. Legvold R., “*Managing the New Cold War*”, Foreign Affairs, August 2014. Web. Retrieved from: <http://www.foreignaffairs.com/articles/141537/robert-legvold/managing-the-new-cold-war>

39. Lenoir F., “*Energy Minister: Russia has been, is and will be reliable gas supplier to Europe*”, The Moscow Times, 30 October 2014. Web. Retrieved from: <http://www.themoscowtimes.com/article/510405.html>

40. Liutho K., “*Energy in Russia's foreign policy*”, Pan- European Institute, October 2010. Web. Retrieved from:
http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-jatietopakettit/Documents/Liutho_final_netti.pdf

41. Lough J., “*Russia's Energy Diplomacy*”, Russia and Eurasia Programme, Chatham House, May 2011. Web. Retrieved from: http://www.chathamhouse.org/sites/files/chathamhouse/19352_0511bp_lough.pdf

42. Lugar D., “Senator Lugar’s Keynote Speech to the German Marshall Fund Conference in Advance of the NATO Summit” Riga, Latvia, November 27, 2006. Web. Retrieved from <http://www.gmfus.org/archives/2006/11/page/2/>

43. Mansourov A. Y., “*Mercantilism and Neo-Imperialism in Russian Foreign Policy during president Putin's 2nd Term*”, The Korean Journal of Defence Analysis, Vol. XVII, No.1, Spring 2005. Web. Retrieved from: http://www.kida.re.kr/data/kjda/07_Alexandre%20Mansourov.pdf

44. Medvedev A., “*Is gazprom's strategy political?*”, Europe's World, 1 June 2008. Web. Retrieved from: <http://europesworld.org/2008/06/01/is-gazproms-strategy-political/#.VL-LKloVPrQ>

45. Medvedev D., “*Go Russia!*”, 10 September 2009. Web. Retrieved from: <http://eng.kremlin.ru/news/298>.

46. Milov V., Kuchins A., “*How Sustainable is Russia's Future as an Energy Superpower?*”, The Carnegie Endowment for International Peace, 16 March 2006. Web. Retrieved from: <http://carnegieendowment.org/2006/03/16/how-sustainable-is-russia-s-future-as-energy-superpower/b6z>

47. Monaghan A., “*Putin's Russia: shaping a 'grand strategy'?*”, International Affairs 89:5, 2013. Web. Retrieved from: <http://onlinelibrary.wiley.com/doi/10.1111/1468-2346.12068/abstract>

48. Monaghan A., “*Russian Oil and EU Energy Security*”, Conflict Studies Research Centre: Russian Series, November 2005. Web. Retrieved from: [http://da.mod.uk/defac/colleges/arag/documentlistings/russian/05\(65\).pdf](http://da.mod.uk/defac/colleges/arag/documentlistings/russian/05(65).pdf)

49. Myers S.L., “*Putin says U.S. faces big risks in effort with Iraq*”, The New York Times, 6 October 2006. Web. Retrieved from:
<http://www.nytimes.com/2003/10/06/international/europe/06PUTI.html>
50. Newnham R., “*Oil, carrots and sticks: Russia's energy resources as a foreign policy tool*”, Journal of Eurasian Studies 2, 2011. Web. Retrieved from: <http://www.sciencedirect.com/science/article/pii/S187936651100011X>
51. Osipova Y., “*Seeing Beyond the Bear: Selective Processing and Russian Public Diplomacy in the West*”, American university, Washington, Spring 2012. Web. Retrieved from: <http://www.globalinterests.org/wp-content/uploads/2013/08/Russian-Public-Diplomacy-in-the-West.pdf>
52. Orttung R. W., Overland I., “*A limited toolbox: Explaining the constraints on Russia's foreign energy policy*”, Journal of Eurasian Studies, 2011. Web. Retrieved from:
<http://www.sciencedirect.com/science/article/pii/S1879366510000394>
53. Ozdamar O., “*Energy, Security and Foreign Policy*”, University of Economics and Technology, Ankara, December 2012. Web. Retrieved from:
<http://ozgur.bilkent.edu.tr/download/14Energy,%20Security,%20and%20Foreign%20Policy.pdf>
54. Putin V., “*Russia at the turn of the millennium*”, The Russian Government Website, 1999. Web. Retrieved from:
http://www.government.gov.ru/english/statVP_engl_1.html
55. Ringhausen J., “*Refuting the media: punishment and the 2005-2006 gas dispute*”, University of North Carolina, at Chapel Hill, 2007. Web. Retrieved from:
http://www.researchgate.net/publication/36711167_Refuting_the_media_Punishment_and_the_2005--2006_gas_dispute
56. Russian Analytical Digest, “*Russian Energy Policy*”, July 2011. Web.

Retrieved from: <http://www.css.ethz.ch/publications/pdfs/RAD-100.pdf>

57. Russian Analytical Digest, "*Russia's New Energy Frontiers*", January 2008. Web. Retrieved from: <http://www.css.ethz.ch/publications/pdfs/RAD-33.pdf>
58. Russian Analytical Digest, "*Gazprom's Foreign Energy Policy*", May 2008. Web. Retrieved from: <http://www.css.ethz.ch/publications/pdfs/RAD-41.pdf>
59. Russian Analytical Digest, "*Russia's New Gas Projects*", April 2009. Web. Retrieved from: <http://www.css.ethz.ch/publications/pdfs/RAD-58.pdf>
60. Russian Analytical Digest, "*Energy*", May 2012. Web. Retrieved from: <http://www.css.ethz.ch/publications/pdfs/RAD-113.pdf>
61. Russian Analytical Digest, "*Foreign Economic Policy*", October 2012. Web. Retrieved from: http://www.css.ethz.ch/publications/pdfs/Russian_Analytical_Digest_119.pdf
62. P. Rutland, "*Russia as an Energy Superpower*" *New Political Economy*, Vol.13 No. 2, June, 2008. Web. Retrieved from: <http://prutland.web.wesleyan.edu/Documents/Energy%20superpower.pdf>
63. Rutland P., "*Putin's economic record: is the oil boom sustainable?*", *Europe-Asia Studies*, 2008. Web. Retrieved from: <http://prutland.web.wesleyan.edu/.../Putin's%20record.pdf>
64. Sakwa R., "*Putin's Leadership: Character and Consequences*", *Europe-Asia Studies*, Vo. 60, August 2008. Web. Retrieved from: https://kar.kent.ac.uk/13106/1/Sakwa_E-AS_Aug_2008.pdf
65. Saunders P.J., Legvold R., Kroutikhin M., "*Russian Energy Policy and Strategy*", *The National Bureau of Asian Research*, Vo. 19, July 2008. Web. Retrieved from: <http://www.nbr.org/publications/nbranalysis/pdf/vol19no2.pdf>
66. Shandrina E., "*Russia's foreign energy policy: norms, ideas and driving dynamics*", *Pan-European Institute*, 2010. Web. Retrieved from:

http://www.utu.fi/fi/yksikot/tse/yksikot/PEI/raportit-jatietopakettit/Documents/Shadrina_final_netti.pdf

67. Shulga A., “*Foreign Investment In Russia's Oil and Gas: Legal Framework and Lessons for the Future*”, *Journal of International Law*, 2001. Web. Retrieved from: <http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1311&context=jil>
68. Smith K. C., “*Managing the Challenge of Russian Energy Policies: Recommendations for U.S. and EU Leadership*”, Center for Strategic and International Studies, November 2010. Web. Retrieved from: http://csis.org/files/publication/101123_Smith_ManagingChallenge_Web.pdf
69. Smith K.C., “*Security Implications of Russian Energy Policies*”, Centre for European Policy Studies”, No. 90, January 2006. Web. Retrieved from: <http://mercury.ethz.ch/.../en/PB90%5B1%5D.pdf>
70. Skinner R., “*Energy Security and Producer-Consumer Dialogue: Avoiding a Maginot Mentality*”, Oxford Institute for Energy Supply, October 2005. Web. Retrieved from: <http://www.oxfordenergy.org/wpcms/wp-content/uploads/2011/02/Presentation31-Energy-Security-and-Producer-ConsumerDialogueAvoidingaMaginotMentality-RSkinner-2005.pdf>
71. Soldatkina V., “*The role of energy in Russian foreign policy: political instrument or tool for profit maximization?*”, Central European University, Budapest, June 2010. Web. Retrieved from: http://www.etd.ceu.hu/2010/soldatkina_varvara.pdf
72. Steiberg J, “*Return of the Bear? The Extend of Russian Revisionism as Applied to Oil and Gas Machinations*”, Penn Libraries, University of Pennsylvania, 2009. Web. Retrieved from: <http://repository.upenn.edu/cgi/viewcontent.cgi?article=1132&context=curej>
73. Stern J., “*European Gas Supply and Security Issues*”, *European Dependence on Russian Energy*, Stockholm, September 2005. Web. Retrieved from: http://www.bgc.bg/upload_files/file/Security_of_Euro_Gas_.pdf

74. Stulberg A.N., “*Russia and the geopolitics of natural Gas: Leveraging or Succumbing to Revolution?*”, PONARS Eurasia Policy Memo, No. 296, September 2013. Web.Retrieved from:
<http://www.ponarseurasia.org/article/policy-memo-russia-and-geopolitics-natural-gas-leveraging-or-succumbing-revolution>
75. Tafuro E., “*Fatal attraction? Russia's soft power in its neighbourhood*”, FRIDE, A European Think Tank for Global Action, No. 181, May 2014. Web. Retrieved from:
http://fride.org/download/PB_181_Russia_soft_power_in_its_neighbourhood.pdf
76. Trenin D., “*Russian Foreign Policy: Modernization of Marginalization?*”, Foreign Affairs 88, no. 6, December 2009. Web.Retrieved from:
http://www.piie.com/publications/chapters_preview/4976/09iie4976.pdf
77. Trenin D., Lo B., “*The Landscape of Russian Foreign Policy Decision Making*”, Carnegie Centre, Moscow, 2005. Web. Retrieved from:
http://www.carnegie.ru/ru/pubs/books/9211doklad_fin.pdf
78. Trenin D., “*Welcome to Cold War II*”, Foreign Policy, March 2014. Web. Retrieved from <http://foreignpolicy.com/2014/03/04/welcome-to-cold-war-ii/>
79. Tsakiris T., “*Energy Security Policy as Economic Statecraft: A concise historical overview of the last 100 years*”, Agora without Frontiers Volume 9 (4), 2004. Web. Retrieved from: http://www.idec.gr/iier/new/TOMOS%209/TEYXOS%204/TSAKIRIS_9_4.pdf
80. Tsygankov A. P., “*Contested identity and Foreign Policy: Interpreting Russia's International Choices*”, International Studies Perspectives, 2014. Web. Retrieved from:
<http://onlinelibrary.wiley.com/doi/10.1111/insp.12000/abstract>
81. Tsygankov A. P., “*Russia's International Assertiveness: What does it mean for the West?*”, Problems of Post-Communism, 2008. Web. Retrieved from:
<http://online.sfsu.edu/andrei/Research/>
82. Varol T., “*The Russian Foreign Energy Policy*”, European Scientific Institute, Egalite, 2013. Web.Retrieved from:
<http://eujournal.org/files/journals/1/books/TugceVarol.pdf>

83. Vatansever A., “*Russia's Oil Exports: Economic Rationale Versus Strategic Gains*”, Carnegie Endowment for International Peace, Energy and Climate Program, December 2010. Web. Retrieved from:
http://carnegieendowment.org/files/russia_oil_exports.pdf
84. Woehrel S., “*Russian Energy Policy Toward Neighboring Countries*”, CRS Report for Congress, September 2009. Web. Retrieved from:
<https://www.fas.org/sgp/crs/row/RL34261.pdf>
85. Wolosky L.S., “*Putin Plutocrat Problem*”, Foreign Affairs, March-April 2000. Web. Retrieved from:
<http://www.foreignaffairs.com/articles/55843/lee-s-wolosky/putins-plutocrat-problem>
86. Wood T., “*The Putin Era*”, New Left Review, March-April 2007. Web. Retrieved from: <http://newleftreview.org/II/44/tony-wood-contours-of-the-putin-era>
87. Yergin D., “*Ensuring Energy Security*”, Foreign Affairs, March-April 2006. Web. Retrieved from: <http://www.foreignaffairs.com/articles/61510/daniel-yergin/ensuring-energy-security>.

Official websites

- BBC News. Web. Retrieved from: <http://www.bbc.com>
- Business Insider. Web. Retrieved from: <http://uk.businessinsider.com>
- Financial Times. Web. Retrieved from: <http://www.ft.com/home/europe>
- Forbes. Web. Retrieved from: <http://www.forbes.com>
- Foreign Affairs. Web. Retrieved from: <http://www.foreignaffairs.com>
- Foreign Policy. Web. Retrieved from: <http://foreignpolicy.com>
- The New York Times. Web. Retrieved from: <http://international.nytimes.com>
- Pravda. Web. Retrieved from: <http://www.pravda.ru>
- Ria Novosti. Web. Retrieved from: <http://ria.ru>
- Rossijskaja Gazeta. Web. Retrieved from: <http://www.rg.ru>
- Russia Beyond The Headlines. Web. Retrieved from: <http://rbth.com>
- The Guardian. Web. Retrieved from: <http://www.theguardian.com/uk>
- The Independent. Web. Retrieved from: <http://www.independent.co.uk>
- The Moscow Times. Web. Retrieved from: <http://www.themoscowtimes.com>

Official Websites

- BP. Web. Retrieved from: <http://www.bp.com/>
- CIA world factbook. Web. Retrieved from: <https://www.cia.gov/library/publications/the-world-factbook/index.html/>
- East European Gas Analysis. Web. Retrieved from: <http://www.eegas.com/>
- Energy Information Administration. Web. Retrieved from: <http://www.eia.gov>
- European Commission. Web. Retrieved from: <http://ec.europa.eu/>
- Gazprom. Web. Retrieved from: <http://gazprom.ru/>
- Kremlin. Web. Retrieved from: <http://eng.kremlin.ru>
- Lukoil. Web. Retrieved from: <http://www.lukoil.com/>
- Ministry of Foreign Affairs of the Russian Federation. Web. Retrieved from: <http://www.mid.ru/>
- NATO. Web. Retrieved from: <http://www.nato.int/>
- Russian International Affairs Council. Web. Retrieved from: <http://russiancouncil.ru/en/>
- Surgutneftgaz. Web. Retrieved from: [russia www.surgutneftgas.ru/en/](http://www.surgutneftgas.ru/en/)
- The World Bank. Web. Retrieved from: <http://www.worldbank.org>
- Transnafta. Web. Retrieved from: http://www.transnafta.rs/sr_lat/naslovna/
- U.S. Department of Energy. Web. Retrieved from: [http://energy.gov/science-innovation/energy-sources/ fossil](http://energy.gov/science-innovation/energy-sources/fossil)
- U.S. Securities and Exchange Commission. Retrieved from: <http://www.sec.gov>

