



Putin's Power Politics

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In a world of american preponderance, European integration, and Asian ascent, it is sometimes hard to take Russia seriously as a great power. In many respects, the country has been in steady decline since the end of the Cold War. Its population is shrinking. Life expectancy is falling. It cannot adequately safeguard its nuclear weapons stockpiles. Its military is in an advanced state of collapse.

Russia faces a threat from Islamist terror in its southern regions. Parts of Siberia contain more Chinese immigrants than Russians. Moscow's attempts to retain a Eurasian sphere of influence have been set back by democratic revolutions in Georgia, Ukraine, and Kyrgyzstan. Russia risks being eclipsed by the rise of Asia in the east and the vibrancy of Atlanticist democracies in the west.

But Russia has a secret weapon in what would otherwise be a modest arsenal of national power. Like many Third World states and Arab autocracies--and quite unlike either the rich West or a globalizing Asia--Russia relies on oil and gas revenues for nearly half its government budget. Moreover, it is transforming this typical indicator of economic backwardness into a hidden strength, making it the vehicle for its aspiration to re-emerge as a global leader.

Unlike corrupt politicians who view their country's oil wealth as a means of elite enrichment, President Vladimir Putin is methodically consolidating state control over Russia's energy resources and deploying them as a tool of international statecraft. Russia's energy exports have replaced

both nuclear arms and the Communist International as the principal agent of Russian influence abroad.

Russian officials are constructing a grand strategy that more closely resembles the mercantilism of 17th-century European empires--in which managed trade was a strategic tool for building up state power in a global contest for primacy--than the policies of market capitalism seen in Asia and the West. Rather than liberalizing its economy, as China has done to such explosive effect, Moscow is reasserting state control, in a concerted strategy to make Russia a great power once again.

A closer look at the way Russia has wielded energy supplies to support its allies and bludgeon its rivals in Eurasia suggests that major economies increasingly dependent on Russian gas and oil exports--including great powers in Europe and Asia, and even the United States--are rendering themselves vulnerable to the ambitions of an autocratic, imperial state that has not refrained from using energy as a geopolitical weapon and has been ruthless in its treatment of both internal political opponents and neighboring states.

The CIA forecasts that "growing demands for energy" will have "substantial impacts on geopolitical relations" in coming years. The need for energy increasingly will be "a major factor" shaping the foreign policies of key states. Total energy consumed globally will rise by 50 percent over the coming two decades, most of it in the form of oil and natural gas. To maintain growth, rising powers like China and India will need to double or triple their energy consumption. The Euro-

pean Commission estimates that Europe's requirements for imported energy will rise from 50 percent of total demand in 2000 to nearly 70 percent in 2020, with gas imports increasing most rapidly.

Russia today is the world's largest exporter of natural gas and second-largest exporter of oil, after Saudi Arabia. Russia also possesses vast, untapped oil and gas reserves, which dwarf sources of supply in the Americas, Europe, and Asia outside the Middle East. The CIA predicts that "Russia . . . will be well positioned to marshal its oil and gas reserves to support domestic and foreign policy objectives."

Russia is a leading producer of liquefied natural gas, which, because of its ease of transport and environmental friendliness, is increasingly in demand by advanced economies. This will have "a transformational effect on Russia's geopolitical position," writes the Observer.

Gazprom, Russia's leading energy conglomerate, is the largest energy company in the world. It controls gas and oil reserves larger than those of British Petroleum, Royal Dutch Shell, and ExxonMobil combined. It produces a fifth of the world's natural gas, making it a price-setter in the international market. It controls the world's biggest pipeline network. It has its own media empire, including prominent television and radio stations and a newspaper. Gazprom is owned by the Russian government.

Gazprom is expected to float shares on the Russian stock market for the first time next year, which will make it the world's largest emerging-

markets stock and will raise significant international capital for the company. Nonetheless, as with other Russian energy companies, foreign ownership will be limited to preserve state control.

Breathless investors may want to take a close look: Gazprom's business operations often reflect not market principles but the interests of Mother Russia. "If the Kremlin had a stock-exchange listing, Gazprom would be it," says a Western banker in Moscow. "Many observers wonder whether Gazprom . . . is really a company at all," writes the Economist. "Often, it seems more like an arm of the state," pursuing "the Kremlin's ambitions as well as its own."

Gazprom's chairman is Dmitri Medvedev, Russia's first deputy prime minister. He previously served as Kremlin chief of staff and is perhaps President Putin's most trusted aide. Medvedev is the leading candidate to replace Putin in 2008.

Although primarily a natural-gas giant, Gazprom also controls significant oil reserves. It owns several large Russian oil companies. One that it doesn't own is Rosneft, the state oil giant that acquired the biggest production unit of what had been the largest private oil company in Russia, Yukos, when the government arrested that firm's chief executive, Mikhail Khodorkovsky, and banished him to prison camp in Siberia for daring to fund opposition political parties.

Rosneft's chairman is Putin's powerful deputy chief of staff, Igor Sechin. From the Kremlin, he is reported to have masterminded the attack on Yukos's leadership--from which Ros-

neft benefited handsomely. Sechin leads the siloviki faction in the Kremlin composed of former military and secret police officers. According to the Financial Times, Rosneft is viewed in Russia as "the oil company of the siloviki," of which Putin and the other leading candidate to replace him as president, second deputy prime minister Sergei Ivanov, are themselves members.

Medvedev and Sechin, both senior government officials at the head of Russian energy giants, are among Russia's "new oligarchs." In a systematic, Kremlin-directed reversal of the rushed privatizations of the 1990s that coincided with Putin's rise to power, the Russian state has coopted or destroyed the independent tycoons of the 1990s who controlled Russia's vast natural resource base--and who represented centers of financial and political power beyond Kremlin control--and replaced them with its own loyal servants. According to the Russian newspaper *Nezavisimaya Gazeta* and the *Christian Science Monitor*, seven people from President Putin's inner circle now control nine state companies with total assets equal to 40 percent of Russia's GDP.

Political power in Russia today is predicated upon strategic control over Russian energy supplies--and the ability to wield their delivery to foreign markets as an instrument of national policy.

Senior Russian leaders believe that their country--poor, vast, and surrounded by powerful neighbors--can ultimately punch far above its weight internationally by systematically increasing both its allies' and its adversaries' dependence on Russian energy

supplies and distribution networks. Thanks to its mineral wealth, "Russia has joined the countries needed by the world," says a propagandist on Gazprom's television channel, NTV. Or as President Putin puts it, Russia's energy resources "create favorable conditions for us to pursue a more independent foreign policy."

Putin long ago identified Russia's ability to develop its natural riches as the key to the country's revitalization. He wrote a doctoral dissertation in the 1990s in which he championed the creation of public-private "financial-industrial corporations" to exploit Russia's mineral wealth, fueling an economy built on natural resources. He argued that state-directed natural resource companies could not only raise the people's standard of living but also protect Russia's position as a great power.

Putin's Russia is actively playing its energy card by entrenching its role as a vital supplier to Western nations, whose markets are the key to Russia's renewal. And Russia's energy exports are critical to its customers' economic health. Europe currently relies on Russia for nearly half its natural gas and a third of its oil. Some countries are more dependent, especially on Russian gas: Russia supplies 40 percent of total demand in Germany, 65 percent in Poland and Bulgaria, 70 percent in Hungary, and 80 percent in the Czech Republic. Austria, Slovakia, and the Baltic states are almost totally dependent on Russia for natural gas.

At an E.U.-Russia summit in October, Putin baldly asserted Russia's geopolitical importance on the basis of its status as Europe's leading energy supplier: "I'll remind you that some

European countries, members of the European Union, cover 90 percent of their gas needs with Russian hydrocarbons. Ninety percent! And no one's complained so far."

He suggested to European leaders that Russia's energy resources entitle his country to treatment as Europe's "equal." And he recalled that in the 1990s, when Russia was weak, "serious European politicians never allowed themselves to talk to Russia arrogantly, to humiliate Russia." Russia, he intoned in terms both reassuring and forbidding, would not humiliate an increasingly dependent Europe "when our possibilities have greatly increased" from energy-fueled growth.

Russian analysts interpreted Putin's summitry as a sort of great-power coming-out ceremony made possible by Europe's hunger for Russia's energy riches. Assessing Putin's European diplomacy, Moscow pundit Yulia Latynina commented, "Without a hint of a smile he presented those gas deliveries as Russia's chief strategic weapon."

Rich European countries find themselves in Russia's "oil and gas orbit," explained an anchorman for Russian television station RTV. Whereas Russia once was feared in Europe as a "big country with a weak economy," opined a reporter for Channel One, another Russian network, thanks to its ability to leverage its energy wealth, it is now feared as a "big country with a strong economy." Center TV, also broadcast out of Russia, predicted that in a decade "the whole energy prosperity of the E.U. will depend on Moscow."

Europe's dependence on Russian gas is expected to rise to 80 percent of total demand when a new North European Gas Pipeline becomes fully operational. Instead of transiting overland through pipelines in Ukraine, Poland, Lithuania, and Moldova, as they do now, Russian energy exports will run under the Baltic Sea, through a \$5 billion pipeline that will link Russia's vast reserves directly to Western Europe. Gazprom owns the pipeline company, rendering it an agent of government influence as well as a source of supply. President Putin has hired former German chancellor Gerhard Schröder as the company's chairman, underscoring Moscow's view of its strategic importance to Russia-Europe relations.

Putin recently inaugurated another major undersea pipeline to carry Russian gas directly to Turkey and Italy, and ultimately on to other southern European economies. These pipelines demonstrate Russia's determination not only to supply gas to its rich Western neighbors, but also to control the physical infrastructure that ties Russia's trading partners into long-term dependency on Russian supplies.

Britain's energy minister has admitted what many leaders only nervously whisper: Europe is dependent on Russia for energy. With the North European Gas Pipeline, reports Russia TV, "Russia will essentially be guaranteeing Europe's energy security and the growth of its economy."

Will Russia exploit that vulnerability? A senior Russian official recently told the Financial Times it was "natural" to use Russian energy exports for dip-

lomatic purposes, adding, "With our resources, we think we can use this energy to strengthen our position in the world as well as make a profit." Russian leaders "clearly see that their energy assets are their key to being a great power," says the Carnegie Endowment's Andrew Kuchins. The trade in gas and oil enhances Russia's international stature: Russia is president of the Group of Eight, a forum for rich democracies, despite being neither rich nor a democracy.

What Russia wants from European and Asian great powers--for now, while it rebuilds its national strength--is respect as a peer and a seat in their councils. But it's an entirely different story in Russia's backyard, where Moscow wields oil and gas as an instrument of coercion over its weaker neighbors.

Before he resigned on December 27 in protest against the rollback of political freedom in Russia, Putin's maverick economic adviser Andrei Illarionov condemned his government's use of energy as a "weapon" on the international stage. That policy has been vividly on display in Ukraine, which enjoyed lucrative terms of trade with Russia until it aligned its foreign policy with that of NATO and the E.U. after its 2004 Orange Revolution. Moscow then determined to punish Ukraine, with the goal of influencing its internal politics in a more Russia-friendly direction. The means: manipulation of gas supplies, upon which Ukraine relies for four-fifths of domestic consumption.

As Russian journalist Fyodor Lukyanov puts it, "The Kremlin's new line, following events in Ukraine, is that the E.U. is an expanding empire

of a new type"--and that expansion needs to be contained, if not reversed, using the kind of energy leverage that has been wielded with great effect against Ukraine and Russia's other pro-Western neighbors.

To counter Ukraine's Western tilt, Russia threatened to quadruple the price it charges Ukraine for gas deliveries, from \$50 to \$220 per thousand cubic meters. In December, Moscow insisted it would shut off gas exports to Ukraine--in deepest midwinter on the frigid Ukrainian steppe--and proceeded to do so on January 1, in retaliation for Kiev's refusal to meet its punitive terms. According to the Los Angeles Times, the price Russia is demanding would result in "the virtual collapse of the Ukrainian economy."

But that is probably not Moscow's goal. According to analyst Vladimir Socor, its real objective appears to be joint Russian ownership of Ukraine's pipeline network. This would extend Russia's tentacles deeper into its neighbor only a year after Ukraine's people cast off Russian tutelage. Gazprom has bought up key distribution networks in other Central and Eastern European nations, reinforcing their long-term dependency on Russia, and looks eager to apply this strategy in Ukraine, too. Indeed, a political settlement between Kiev and Moscow, reached on January 4 after a three-day, total Russian embargo on gas exports to Ukraine, gives a Gazprom-controlled company a monopoly on gas exports to Ukraine as well as increased control over that country's internal gas distribution network.

The gas dispute contributed to the appointment of a new prime minister

in Kiev, and as Moscow turned the screws, Ukraine's ardently pro-Western foreign minister made an emergency visit to Moscow to pledge Ukrainian fealty. The legacy of the crisis that is tarnishing Ukraine's current leadership may be the election of a more pro-Russian parliament this March.

Moscow also wants to drive a wedge between Ukraine and its European partners. Russia's special envoy to the E.U. accuses Ukraine of "blackmailing" European countries and "holding European consumers hostage" by refusing to meet Gazprom's punitive terms. Putin labels Ukraine a "parasite on Russia" even as he soothingly pledges to be a reliable energy partner to rich West Europeans. Gazprom, after manufacturing the crisis it now condemns, accuses Ukraine of "endangering the energy security of European consumers of Russian gas."

The two-tiered nature of Russia's price system for export to its neighbors reflects the degree of political warmth or hostility they show Moscow. Russian ally Belarus enjoys highly subsidized gas. But two years ago, when its puppet dictator irked his political patrons in Moscow, Gazprom literally turned off the power in Minsk. President Alexander Lukashenko got the message and fell back into line. His country pays only a fifth of the price Russia has demanded from Ukraine for gas.

Moscow is using the dispute with Kiev "to show other former Soviet republics that Ukraine is in trouble because it didn't behave," says one Ukrainian analyst. Last summer, Russia announced that it would review its relations with its neighbors and

deprive "nonfriendly countries" of favorable trade terms for energy exports.

Since then, Gazprom has hiked the price it demands from Poland for gas imports. It has announced a substantial spike in prices for the Baltic states. It sharply raised energy prices to Georgia, an enthusiastic Western ally. And it is raising gas prices to Moldova, which wants out of Russia's orbit and closer ties to Europe. "Russia is not going to let what remains of her former empire leave the fold without a fight," writes Ziba Norman of London's Transatlantic Institute.

"Putin is now saying, You have to choose between going to the West or else supporting the idea of a Single Economic Space under Russia," says Alexander Rahr of the German Council on Foreign Relations. Countries like Belarus that remain within Russia's sphere enjoy the benefits of cooperation; countries that ally themselves with the E.U. and NATO are punished.

Russia is moving systematically to build energy pipelines directly to Western Europe so that Moscow can wield its energy hammer against vulnerable states in Eastern Europe without threatening its lucrative trade with rich European economies. The North European Gas Pipeline will allow Russia to deliver gas to Germany, Europe's largest economy--and to Britain, France, and other countries via proposed pipeline offshoots--without transiting Ukraine or E.U. members Poland, Estonia, Latvia, and Lithuania.

Within the E.U., these countries bitterly contested the bilateral German-

Russian pipeline agreement, pointing out that overland pipeline routes across their territories would be significantly cheaper. "The only possible reason [for choosing the sea route] was political," said a Washington Post editorial. A direct Russian-German supply route will expose Central and Eastern European democracies to Russian coercion by dividing them from their E.U. partners. Russia will be able to pursue a two-tiered energy policy towards Europe--reliably supplying gas to rich Western economies even as it threatens to turn off the tap to its weaker neighbors.

"The pipeline will add range and power to Gazprom's potential for business and political leverage over the Eastern European countries on its route," says the New York Times. The Russian newspaper Novyye Izvestia celebrated the pipeline's geopolitical logic: "Moscow has decided to achieve political aims against the E.U. 'anti-Russian bloc' [identified as Poland, Latvia, Lithuania, and Estonia] using economic means."

Such coercion can be subtle. Central bankers in Lithuania and Estonia have warned that an abrupt move by Gazprom to raise gas prices could derail their hopes of adopting the euro in 2007 by spiking domestic inflation above E.U. limits. If it so chooses, a hostile Kremlin may be able to play its Gazprom card to quietly veto eurozone expansion into the Baltics.

Democracies like Poland and the Baltic states wrongly thought they were escaping Russia's shadow when they acceded to the European Union. Putin's recent remark that the collapse of the Soviet Union was one of "the

greatest geopolitical catastrophes of the 20th century" suggests that they should keep their guard up.

Russia is setting its energy sights beyond Europe. It is constructing a major pipeline from eastern Siberia to China, with a Pacific terminus in the Russian Far East to supply Japan; Beijing and Tokyo have each lobbied vigorously to be Moscow's partner of choice. China looks like the near-term winner, but Putin recently stressed that Russia aspires to be the supplier of choice for the entire Asian market. It is diversifying its energy supply routes accordingly. Russia enjoys lucrative energy cooperation with India and is negotiating a gas pipeline to the Korean peninsula. At the APEC summit in November and the East Asia Summit in December, Putin emphasized a resource-rich Russia's centrality to Asia's economic future. When abroad, says a Russian commentator, "this president acts first and foremost as the president of a natural resources power."

In February, Putin visits Algeria, Europe's second-largest source of natural gas (after Russia). Algeria hopes to increase gas exports to Europe 50 percent by 2010. Analysts suspect that Putin is seeking Russian rights to develop Algeria's gas and oil reserves, which would, by extension, increase Russia's grip on the European market.

Russia has also moved strategically to assume a dominant position in energy-rich Central Asia. Gazprom has acquired effective control over all natural gas exports from Kazakhstan, Turkmenistan, and Uzbekistan, shutting out Western and Asian competitors. As a result, says one expert,

"Any country that wishes to purchase gas from Central Asia will be vetted, with commercial agreements dictated by Moscow."

Russia is also a rising supplier to the North American market. Gazprom recently announced plans to move into the United States, aiming for 10 percent market share in liquefied natural gas by 2010 and 20 percent as Russia's production capacity rises. It is currently negotiating liquefied natural gas transportation contracts with American companies. Diversifying energy supplies is a longstanding goal of American policy and is, in principle, to be welcomed. But as analyst Ziba Norman asks, "Should America feel comfortable with this level of dependence" on "an arm of the Russian state?"

There may be no better evidence that Russian energy policy is at the core of Russian political power and strategy than the expectation that President Putin will assume Gazprom's chairmanship when his term ends in 2008. "I intend to leave the Kremlin, but I don't intend to leave Russia," he says enigmatically. He has already mastered the role. "Those who have dealt with Putin," comments Yulia Latynina on radio station Echo Moskvy, "may have gotten the impression that they were talking not with the president of Russia but with the CEO of Gazprom."

In 2008, with Putin as Gazprom's chairman, his trusted aide, current Gazprom chairman and current deputy prime minister Medvedev as president, and Putin aide and siloviki leader Sechin as head of state oil giant Rosneft, the fusion of the Russian state and its energy suppliers may be

complete. "In the old days," says a Russian observer, "Lenin and the party were one. Now it's the Kremlin and Gazprom."

The CIA points out that the trade in natural gas requires a high level of "political commitment" from countries linked by pipeline routes, since they become bound by an expensive and permanent physical infrastructure of supply and demand. Russia has clearly made the political commitment, for reasons of grand strategy rather than mere economics. Gazprom is "Russia's most powerful foreign-policy tool," writes the Economist, "and its best hope of regaining lost clout." As Russia's power and influence grow and its designs become more apparent, will eager trading partners in Asia and the West retain their enthusiasm for the political commitments they made when Russia was poor and weak?

Russia is reemerging as a great power. Its weakness hides its gathering strength. Yet as journalist Masha Lipman points out, Putin's strategy is not modern but nostalgic in character:

His reassertion of state control over Russian energy assets as a tool of development and statecraft is "an anti-modernization project" that is "dragging Russia back to its traditional authoritarian mode."

President Putin is reconstituting Russia's international influence in a manner as cunning and audacious as the more renowned exploits of the Soviet security services--from which he himself emerged. The CEO of the planned Russia-Germany pipeline consortium is a former East German secret police officer whom Putin knew from his time as a KGB agent in East Berlin.

The Russian empire, which has existed for centuries in czarist and Communist guises, today is taking the form of what one Russian reporter calls "an empire of pipelines." Western and Asian states, including all current and future great powers, are rendering themselves increasingly, and in many cases dangerously, dependent on it. As Russia's neighbors have already learned, such dependence comes at a price..

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