

THE ROLE OF ENERGY IN RUSSIAN FOREIGN POLICY:
POLITICAL INSTRUMENT OR TOOL FOR PROFIT MAXIMIZATION?

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ABSTRACT

The concept of energy as a source of influence and control which can be employed by a state in its foreign policy is gaining more attractiveness among different scholars and policy-makers. With the range of controversial and obscure energy disputes between Russia and other states energy started to be viewed as an inalienable instrument of the Russian Government which strives for maintaining influence in relationships with other countries, mainly from the post Soviet space, and for reasserting itself as a great power. However, the unquestionable connection between political goals and behavior of energy companies outside Russia still requires proper investigation and justification. The thesis looks at case studies of conflicts of interests between Russian energy companies and the Russian Government particularly in Azerbaijan, Turkmenistan and Georgia and points out that the companies might choose to design their own policy of profit maximization and pursue other commercial interest rather than been used as a political weapon of the Russian Government.

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Introduction

Being one of the major energy monopolies in the former Soviet republics which influences overall foreign policy and which allows it to have some degree of leverage in these states, the Russian Federation is usually perceived as a country which uses its energy ties as a main foreign policy tool in relationships with its Soviet successors. The recent tensions over the gas supply with Ukraine and Belarus in 2006 and 2009 with the involvement of the state gas monopoly Gazprom recommenced the idea that halting the energy flows and raising the prices for gas were mainly in the interests of the Russian Government rather than in its energy company's.

Though the topic of energy relations between Russia and former Soviet republics was approached by many scholars the dynamics of relations between the Russian Government and its energy companies was not properly examined and illustrated in the existing studies. Specifically, such hypothesis that Russian energy companies might pursue their own interest of profit maximization rather than carry political intentions plays a pivotal role in foreign policy and requires further examining and understanding. Thereby the main objective of the thesis is to investigate the precise cases where the policies of Russian energy companies participating in various projects on the territory of post-Soviet space did not serve as a political weapon of the Russian Government in exercising its foreign policy but, on the contrary, became the ground for disagreement with the Government or between Russia and other states involved.

Some of the European Union (EU) Member States as well as the United States of America (US) are blaming Russia for over exercising its exceptional status of an energy power and using its large energy corporations as a political weapon to influence the behavior of the neighboring countries, mainly from the former Soviet Union. The experts from the EU and the US have explored approximately 55

cases connected with energy disputes with Russian involvement since the dissolution of the USSR in 1991 and concluded that only 11 of them did not contain any political character, while more than 30 from them had political interests behind.¹ In their turn, Russian politicians oppose such views constantly expressed by their American and European colleagues saying that the US and the EU are using double-standards related to the principles of market economy, and emphasizing that even after it raised energy prices to the neighboring states they still were considerably below market prices.² Moreover, the fact that the Russian Government was subsidizing its successor states by selling the energy resources to them at lower costs after the dissolution of the Soviet Union does not oblige Russia to continue doing so. Furthermore, it is important to emphasize that Russia did not use its favorable position and its natural resources to influence the relations with other countries even during the Cold War, and it never exercised cutting off of energy supplies during this period.

Specifically in regard to extraction and distribution of energy resources in Central Asia and the Caucasus - the territories which possess the richest reserve of the natural resources on the post Soviet space and at the same time the most conflicting and disputed regions in regard to occurring tensions over these energy resources, Russia is known for following political interests to maintain its status of great power rather than economic.³ After 1995, when it was decided to strengthen the integration with the Central Asian region Russia started to reinforce its economic ties in order to restore and preserve its political influence in the regions. It can be perceived that the tactical reassertion of Russia's power to impose pressure on its neighboring countries was conducted mainly with the help of its energy relations and.⁴ Generally, in Central Asia and the Caucasus Russia's foreign policy was not always coherent and comprehensible because of various disagreements among representatives of the Russian Government and

¹ Jan H. and David L. Kalicki and Goldwyn, *Energy and Security: Toward a New Foreign Policy Strategy*, (Woodrow Wilson Center Press), 2005, 134

² Ibid, 25

³ Lena Jonson, *Vladimir Putin and Central Asia: The shaping of Russian Foreign Policy*, (London: I.B. Tauris & Co Ltd.), 1994, 134

⁴ Ibid, 137

influential elites. The divergence between them evolved into the actual question which foreign policy should be performed in Central Asia and Caucasus.⁵ The representatives of energy industry perceived energy as an important instrument of fulfilling Russia's political interest in Central Asia and strengthening its positions in the region.⁶ They also argued that Russia should be involved in the rivalry between other outside actors in the region and struggle for its share of the Caspian seabed resources.

Another group opposed this opinion in favor of Russian participation in energy projects in the condominium of all neighboring states⁷ as they understood the vital importance for Russia to sustain good relations with other actors involved and to adjust to changing situation in the region in order not to lose its influence. Nonetheless, in the 1990s Russian foreign energy policy was mostly influenced by the ideas of the first group supported by the Declaration adopted in 1994 which stated that "the Caspian Sea is an enclosed water reservoir ... and represents an object of joint use within whose boundaries all issues of activities including resources development have to be resolved with the participation of all the Caspian countries. Any step by which every Caspian state aimed at acquiring any kind of advantage with regard to the areas and resources... can not be recognized... any unilateral actions are devoid of a legal basis."⁸

The divergence in Russian foreign policy towards Central Asian states is also exemplified by a range of disagreements between Russia and other four littoral states of the Caspian Sea – Iran, Turkmenistan, Kazakhstan and Azerbaijan, described by Shirin Akiner. There, despite the official policy of the Russian Government which opposed any exploitation of disputed areas of the Caspian seabed, its

⁵ Svante E. Cornell, *Small National and Great Powers: a study of ethno-political conflict in the Caucasus*, (London and New York: CURZON – Caucasus World), 2001, 112-113

⁶ Ingerid M. Opdahl, *A critical Sphere of our Security: Russia in Central Asia after 9/11*, (Oslo: Norwegian Institute for Defence Studies), 2005, 116-117

⁷ Svante E. Cornell, *Small National and Great Powers: a study of ethno-political conflict in the Caucasus*, (London and New York: CURZON – Caucasus World), 2001, 114

⁸ The text of 1994 Declaration quoted in Stephen Blank, *Russia's Back to Central Asia*, Middle East Quarterly, vol. II, No.2, November 1995, <http://www.meforum.org/254/Russias-back-in-central-asia>

energy companies were involved in mutual projects together with other foreign shareholders.⁹ The thesis explores such cases of disagreements between the Russian Government and Russian energy companies, different from those in Ukraine and Belarus, to support its main argument. Namely it is demonstrated in the examples of Azerbaijan, Turkmenistan and Georgia where energy was not employed as a foreign policy tool by Russia. In particular, the dispute occurred between Russia and Azerbaijan in 1994 over the development of the offshore oil Azeri-Chirag-Guneshli fields which attracted the participation of Russian oil enterprise Lukoil by its financial profitability. Russia strongly opposed the deal and announced the contract illegal since the Caspian Sea status was still undetermined.

The assumption that in the Caspian Sea region, politics rather than economics influenced the interests of outside great powers during the Yeltsin presidency¹⁰ is also disproved by another case of incongruity between the Russian Government and its oil enterprise Lukoil in Turkmenistan over the development of the disputed Kyupaz/Sedar oil field,¹¹ brought up by Lena Jonson, which supports the idea that the increasing commercial interests of Russian energy companies may cause a conflict of interests between them and the Russian Government.¹² Furthermore, Open Joint-stock company (OJSC) Inter RAO UES has been successfully expanding its business in Georgia while it currently possesses its foreign assets in three Georgian companies, despite the strained relationships between the Georgian and Russian Governments.

The above-mentioned cases also demonstrate that the political interests of the Russian Government do not always coincide with the commercial goals of Russian energy companies. Though Russian interests are still much associated with the political strategy as with energy,¹³ as it is correctly

⁹ Shrin Akiner, *The Caspian: politics, energy and security*, (London and New York: RoutledgeCurzon), 2004, 23-29

¹⁰ Bulent Gokay, *The Politics of Caspian oil*, (Oxford: Palgrave Publishers Ltd), 2001, 37

¹¹ See subchapter 3.1

¹² Lena Jonson, *Russia and Central Asia: a new web of relations*, (London: Royal Institute of International Affairs), 1998, 20-21

¹³ Berilil Nygren, *The rebuilding of Greater Russia: Putin's foreign policy towards the CIS Countries*, (Routledge Contemporary Russia and Eastern Europe Studies, 2008), 167

underlined by Bertil Nyhren, however geo-political and geo-economic goals are usually much interlaced in the region making it complicated to distinguish the initial goals which were pursued.¹⁴

In order to check and justify the main argument of the thesis the theoretical framework consisting of the elements of such international relations theories as offensive neorealism and liberalism combined with the concept of energy as a foreign policy tool¹⁵ were analyzed and applied for the case studies described in the paper. Both theories, offensive neorealism and liberalism, supplement each other in describing energy as Russia' political tool and as an element of constructive relations between the Government and energy corporations respectively.

The mixed method of research comprising of quantitative and qualitative approaches was applied to enhance the productivity and efficiency of the research making.¹⁶ The qualitative approach included analyzing the case studies of energy companies, exploring what area of interests they have and why, and causes and implications of the energy disputes they were involved in. While collecting quantitative data about the involvement of Russian energy enterprises in various international contracts (in percentage) and the share of the Russian Government in their stake allowed the evaluation of the influence of the state on companies' policies.

Interviews were used as an important source of data collection process with the purpose of asking for clarifications from experienced scholars in this area for certain questions regarding Russian energy strategy which are not properly revealed in the literature. They were conducted with primary researchers working in the field of energy relations between Russia and CIS from Central Asia – Caucasus Institute and Swedish Institute of International Affairs in Stockholm and from the Finnish Institute of International Affairs in Helsinki. Based on the interviews, additional qualitative and more elaborative

¹⁴ Nina Poussenkova, *The Global Expansion of Russian Energy Giants*, Journal of International Affairs, Spring/Summer 2010, Vol. 63, No. 2.

¹⁵ See chapter 1.2

¹⁶ John W. Creswell, *The selection of research design*, in Research Design. Qualitative, Quantitative, and Mixed Methods Approaches, 3rd edition, 2008, 5-7

information regarding the relations between the Russian Government and energy corporations which were touched but not explicitly revealed in their articles was received.

The essential data needed for the research was also taken from primary sources such as official statements of representatives of the Governments in the aftermath of energy disputes with the purpose to observe the official position and reaction of the states as well as other documents representing the policy of states such Declarations, Agreements and etc. Secondary sources, namely, press releases of business companies, official statements and speeches of the management of the energy enterprises, Annual Reports and Fact Books (e.g. Gazprom's and Lukoil's reports on their twelve-month activity) were studied with the aim of following the changes within the companies such as sales or acquisitions in new projects. Moreover the on-line resources were approached for more update information on the issue, mainly news web-sites such as Radio Free Europe/Radio Liberty, official web-sites of Russian energy companies: Gazprom, Lukoil, OJSC Inter RAO UES, Transneft electronic articles of Pan-European Institute and Central Asia-Caucasus Institute. And finally, academic articles and books of different leading scholars and researches were analyzed and brought into this thesis. And finally, the case studies of interaction between Russian energy enterprises and the Russian Government in Azerbaijan, Turkmenistan and Georgia were undertaken to support the main argument.

The thesis is divided in three chapters. The first chapter brings the debate about the issue in the literature review and also highlights the theoretical framework which was applied in the thesis, namely the concept of energy as a foreign policy tool with elements of offensive realism and liberalism. In addition, it illustrates the application of the described theoretical framework to the example of the Russian Federation. The second chapter of the thesis discloses the characteristics of three leading Russian energy companies, specifically Gazprom, Lukoil and Inter RAO UES which represent three areas in the energy industry: gas, oil and electricity supplies correspondently. These three companies were chosen with the purpose to see the distinction between the behavior of companies with different

type of ownership, while Gazprom being a state-controlled gas monopoly, Inter RAO UES – electricity enterprise with state involvement and Lukoil being the private one. Further the present chapter focuses on brief description of energy disputes between Russian and European countries, Ukraine, Belarus and Central Asian states analyzing the causes and implications of these cases.

The topic of disagreements between the interests of the Russian Government and Russian energy companies and differences in their policies is underlined in the third chapter. Its first subchapter talks about the conflict of interests between Russia and Lukoil in Azerbaijan and in Turkmenistan and finally the second subchapter analyses the involvement of Russian Inter RAO UES in projects in Georgia with whom Russia has strained relationships. After covering these three cases the paper concludes with main analyses of major incentives of Russian foreign energy policies deployed in different countries. Moreover it sums up the main incentives and characteristics of the three case studies discussed with reference to the main argument of the thesis. Based on the analyses the thesis argues that the policies of different Russian energy companies involved in energy projects outside Russia can not be viewed only as a political weapon aimed at expanding Russia's influence and power.

Chapter 1: The role of energy in foreign policy analysis

The aim of the following chapter is to bring the debate in the literature about the concept of energy being a foreign policy tool and to see the main contradictions and disagreements between primary researchers of the issue and to identify what was not fully revealed in the literature. Moreover, the chapter also gives the explanation of the theoretical framework, in particular the notion of energy as an element and one of the drivers of foreign policies coupled with characteristics of offensive neorealism and liberalism, related to the purpose of analyzing the main argument of the thesis. Furthermore, in the last subchapter these theories are applied to Russia and its energy conflicts to illustrate the relevance and of the above-mentioned theoretical framework to Russian cases.

1.1 Do energy disputes have a commercial or political background?

The issue concerning the interconnection between the Russian Government and its energy companies operating in neighboring countries was also studied by many scholars working in the sphere of energy security and relations between Russia and former Soviet republics. Within the debate about the key drivers of the energy disputes occurring around Russia, primary researchers can be classified in two categories.¹⁷ Firstly, those who strongly believe that the Russian Government is applying the energy as a building block of foreign policy and is promoting its own interest through the activity of its energy

¹⁷ Peter Reddaway and Robert W. Orttung, *The Dynamics of Russian Politics: Putin's Reform of Federal-Regional Relations*, vol. II, (USA: Rowman & Littlefield Publishers Inc.), 2005, 128-129

enterprises and secondly those who suppose that in some cases the motives for the energy disputes between countries contain commercial interest rather than any political element.

Being the representative of the first group, Robert L. Larson stresses that Russia as one of the major gas exporters to Europe and practicing the policy of obtaining more shares in international energy enterprises is re-emerging as the foremost actor with strengthened positions in the region.¹⁸ According to “An external policy to serve Europe’s energy interest”, the document issued by the European Union Commission and General Secretary of the Council Russian in the aftermath of energy crisis between Russian and several ex-Soviet republics, Russia and Middle East countries were named as unstable states which pose a threat to energy deliveries to Europe since they utilize their energy ties as a mechanism to put pressure and maintain influence.¹⁹

In the aftermath of the several energy crises which occurred because of Russia’s cutting of the energy supply, Russia was accused of using its “energy exports as a foreign policy weapon: intervening in country’s politics, putting pressure on its foreign policy choices, and curtailing supplies to the rest of Europe.”²⁰ Moreover, it is argued that “the reassertion of government control over the Russian energy sector increases the risk this weapon will be used again.”²¹ Thus Russia started to be perceived as a country that uses its energy power as a tool of its foreign policy and “re-imposing Kremlin’s control over the energy sector”²² and its disputes over the energy prices disputes between former Soviet republics: Ukraine, Belarus, Georgia and Central Asian states serve as an example that the Kremlin is intending to reestablish the control over the energy industry.²³ Moreover, taking into account the great number of Russian energy companies which are engaged in oil and gas projects outside Russia and thus

¹⁸ Robert L. Larson, *Europe and Caspian Energy: Dodging Russia, Tackling China, and Engaging the US*, p.22-23

¹⁹ *An external policy to serve Europe’s energy interest*, created by the European Union Commission and General Secretary of the Council, Javier Solana, 2006

²⁰ *Report on the Task Force in Russia* of the Council of Foreign Relations (CFR), 2006

²¹ Ibid

²² Lionel Beehner, *Russia's Energy Disputes, 2010*, from <http://www.washingtonpost.com>

²³ Ibid

contribute to the substantial part of Russian outward Foreign Direct Investment (FDI), not only economic incentives but also political interests started to be analyzed.²⁴ Since energy industries such as oil and gas represent the biggest part and contribution to Russian budget and economy in general, it can be understood that Russian leading oil and gas enterprises serve as supporters and carriers of Russia's influence abroad.²⁵ Since the great part of Russian FDI and exports account for energy industries, large enterprises might support and promote strategic interests of the Russian Government.²⁶ Russia's vast energy resources can provide the country with a substantial political leverage, not only in the CIS countries but also throughout Europe.

The position of the first group can be viewed from the perspective of the offensive realism theory which conjectures that in international relations every state is preoccupied with the idea of its own survival and maximization of power.²⁷ In this regard, Russia is pursuing the policy of expanding its power using its natural resources as a tool to maximize its influence. Moreover, since "given the difficulty of determining how much power is enough for today and tomorrow, great powers recognize that the best way to ensure their security is to achieve hegemony now, thus eliminating any possibility of a challenge by another great power."²⁸ Russia is trying to avoid any competition from the international community in the energy industry using its energy companies.

However, the idea of calling Russia a rogue state requires evidence and explicit illustrations of using its natural resources and energy companies as a tool to reach specific political objectives. Currently there is no clear answer in the literature whether there is political background and interests in

²⁴ Peeter Vahtra, "Expansion or Exodus? Russian TNCs amidst the global economic crisis", Electronic Publications of Pan-European Institute, 20/2009, <http://www.tse.fi/pei>

²⁵ Peeter Vahtra, *Expansion or Exodus? – Trends and developments in foreign investments of Russia's largest industrial enterprises*, Pan-European Institute, (Turku School of Economics), 2005, <http://www.tse.fi/pei>

²⁶ Peeter Vahtra and Kaile Liuhto, *Expansion or Exodus? – Foreign Operations of Russia's Largest Corporations*, Pan-European Institute, (Turku School of Economics), 2004, <http://www.tukkk.fi/pei/pub>

²⁷ Mark W. Zacher and Richard A. Matthew, *Liberal International Theory: common Threads, Divergent Strands* in Charles W. Kegley (ed.) *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, 1995, 108

²⁸ John J. Mearsheimer, *The Tragedy of Great Power Politics*, (USA: W. W. Norton & Company), 2001, 54

Russian energy disputes with Ukraine, Belarus and Georgia. Nevertheless, there are obvious cases where the interests of the Russian Government did not coincide with the goal of Russian energy companies and led to some disputes.

Besides the widely accepted view of Russia as an energy hegemony which uses its energy ties as leverage in relations with other states, there are implicit examples of the opposite. The recent tensions between Russian, Ukraine and Belarus over the increase in gas prices may not be political but mainly driven by the poor geological and economic conditions of the Russian gas sector such as the decrease in gas production, poor management and infrastructure facilities and difficult conditions for extraction of energy resources.²⁹ Cases from Central Asia and South Caucasus exemplify that Russian energy disputes have not always had a political character since they sometimes occurred between Russian energy companies and the Russian Government itself.³⁰

Most of the researchers adhering to the first point of view concerning Russian foreign energy policy do not explicitly give an answer whether the energy disputes between Russia and other countries have an economic or political background and do not illustrate with examples how exactly Russia was intending to keep the neighboring countries under its political influence. In addition, when it comes to explanation of these disputes most of them actually admits that Russia could have economic incentives for raising the gas prices rather than using the company as leverage.

²⁹ Robert H. Donaldson and Joseph I. Noguee, *The Foreign policy of Russia: Changing systems, Enduring Interests*, third edition, Library of Congress, 2005, 152-153

³⁰ See chapter 3

1.2 Energy as a foreign policy tool

Energy has always been an important factor in assessing the development of states but only recently it started to be viewed as an indispensable element of the foreign policy concept. Historically energy was a tool of influence, fostering the expansion of European power and causing the inter-state wars and conflicts and producing geopolitical strictures of power, trade and war.³¹ However, despite the fact that there is variety of examples when natural resources lead to disputes between states and even caused the armed conflict, for example on the African Continent, particularly in Sudan, Nigeria and Sierra Leone, the concept of energy occurred to be a new issue on the agenda of foreign policy.³²

In the western and more developed countries energy became an indicator of national development in economic, social and political spheres fostering the progress and prosperity of the whole society;³³ however, it also led to great dependence of these countries on natural resources thus making the states more vulnerable in their demand for energy. Therefore, energy as an important factor turned out to be largely linked to the economic and political weaknesses of countries which are dependent on it. Still nowadays the struggle for energy resources, attempts to gain full control over the energy exploration and distribution and maximizing its power in energy industry can lead to disputes between the states.³⁴

Energy supply and energy security represent a concern for both exporting and importing countries and now occupy one of the priority places on the agenda of the international community. The issue of energy as a tool of control and aspect of foreign policies in the countries which possess vast

³¹ Amelia Hadfield, *Energy and Foreign Policy: EU-Russia energy dynamics*, in Steve Smith, Amelia Hadfield, Timothy Dunne (ed.), *Foreign Policy: Theories, Actors, Cases*, (Oxford University Press), 2008, 22

³² Ibid, 23

³³ Robert H. Donaldson and Joseph I. Noguee, *The Foreign policy of Russia: Changing systems, Enduring Interests*, third edition, (Library of Congress), 2005, 47

³⁴ Lutz Kleveman, *The new great game: blood and oil in Central Asia*, (USA: Atlantic Books), 2003, 8-9

energy resources and have the ability to extract and export them and thus have exclusive opportunities to use them as leverage in their relationships with other countries also became more widespread. After the gas dispute between Russia and Ukraine in January 2006 and 2009 which had also affected the European countries, energy began to be perceived as a tool which is able to create of insecurity between “sovereign and commercial” actors involved into energy sector and “reshape the geopolitical terrain of the developed west and key actors on its peripheries.”³⁵

While analyzing energy as an element of foreign policy, it is important to mention that initially natural resources occupy the place of a strategic national asset of the states meaning that the geographic locations of countries give them the sovereignty to explore, extract, use and enjoy the commercial benefits from selling the natural resource which are located on their territories. Thus energy can provide countries with internal order and external influence thus becoming a source of relative power³⁶ what falls into the theoretical framework of offensive neorealist which posits that the main goal pursued by the states is to strive for power-maximization and conquest. This theory described by John Mearsheimer in his book “The Tragedy of Great Power Politics” suggests that “a great power that has a considerable power advantage over its competitors is likely to behave more aggressively because it has the capability as well as the incentive to do so.”³⁷

According to Amelia Hadfield, specific social, geographic and historic characteristics of natural resources form their role in social practices of peacetime and their direct use during times of armed conflicts.³⁸ The value placed on energy is as much as social constructor as a market indicator. As it is being observed, nowadays countries are seeking energy security as much as they are seeking for

³⁵ Lutz Kleveman, *The new great game: blood and oil in Central Asia*, (USA: Atlantic Books), 2003, 11

³⁶ Amelia Hadfield, Energy and Foreign Policy: EU-Russia energy dynamics, in Steve Smith, Amelia Hadfield, Timothy Dunne (ed.), *Foreign Policy: Theories, Actors, Cases*, (Oxford University Press), 2008, 25

³⁷ John Mearsheimer, *The Tragedy of Great Power Politics*, (USA: W. W. Norton & Company), 2001, 68

³⁸ Amelia Hadfield, Steve Smith and Timothy Dunne, *Foreign Policy: Theories, Actors, Cases*, (Oxford University Press), 2008, 56

economic and military security because they perceive energy as an “assurance of the ability to access the natural resources required for the continual development of the national power ... and adequate infrastructure to deliver these suppliers to the market.”³⁹ Moreover, most of the countries encounter similar kind of problems related to energy demand and supply. Robert Skinner portrays this in the following way that “long-term energy business should operate within a political context manifestly driven by short-term concerns and development. Government’s policies affect energy supply and demand but not as quickly as politicians might like ... governments tend to be slaves to the “urgent” rather than to the important, where urgency is largely determined by special elites and interests.”¹ Finally, energy as such has advanced not only into foreign policy issue but also into the tool of the foreign policy which many countries, including Russia, are using in order to protecting their own national interests.

Since the energy issue is evolving into a foreign policy topic it is vital to understand what actors are actually responsible for energy policies. The main actors involved are usually distinguished into the private one, them being the privately owned national and international companies, and the public ones, represented by state-controlled or state-owned enterprises or Governments themselves. Taking into account the division of shares in energy sector between public and private actor it can be observed that the foreign energy policies of countries are usually comprised of combination of the state or national interests and objectives of private energy businesses which not always coincide with each other and the later can even contradict to the former ones causing the disputes and disagreements.

It is important to analyze the role and influence of energy in the foreign policy, as well as to explore the cases when energy does not play a pivotal role in foreign policy making. It should be also taken into account that energy companies can be more interested in their financial prosperity and in

³⁹ Jan H. and David L. Kalicki and Goldwyn, *Energy and Security: Toward a New Foreign Policy Strategy*, (Woodrow Wilson Center Press), 2005, 9-10

receiving bigger income, thus signing more profitable contracts with foreign companies even if they provoke criticism and dissatisfaction from their Governments.

1.3 Energy in Russia's foreign policy

Applying the above-mentioned theory to Russian foreign energy strategy it can be observed that it has evolved into a combination of political revanchism⁴⁰ and quasi-liberal economic adjustments.⁴¹ The first part of the argument refers to the theory that states are seeking for tools to maximize their power, in particularly in case of Russia with the help of its energy resources and ties. In the mid 90s, after having lost its positions in Central Asia and Caucasus the aftermath of the dissolution of the Soviet Union and allowing the range of Western companies to step in and explore the natural resources in the region, Russia started to realize the importance of restoring and protecting its status of a great power. The idea of this great power strategy intrinsic to the Russian energy politics includes the following background: firstly, being the largest producer and exporter of gas⁴² and the second biggest exporter of oil in the world Russia has the exclusive position as an energy exporter and importer with an ability to influence the energy policy outside of the country. Moreover, most of the energy resources are owned or controlled by the limited number of big influential companies such as Rosneft and state companies as Transneft and Gazprom which are perceived as “highly influential agents of Government oil and gas policies.”⁴³ In addition, soviet infrastructure and pipeline networks which automatically succeeded to Russia after the collapse of the USSR provide the country with opportunity to form the energy politics in

⁴⁰ Political revanchism – the term which is used to describe the policies directed at the recovery of the territory and power

⁴¹ Amelia Hadfield, *Energy and Foreign Policy: EU-Russia energy dynamics*, in Steve Smith, Amelia Hadfield, Timothy Dunne (ed.), *Foreign Policy: Theories, Actors, Cases*, Oxford University Press, 2008, 135

⁴² Lutz Kleveman, *The new great game: blood and oil in Central Asia*, Atlantic Books, 2003, p. 2-3

⁴³ Steve Smith, Amelia Hadfield and Timothy Dunne, *Foreign Policy: Theories, Actors, Cases*, Oxford University Press, 2008, 120-121

the region. Secondly, variety of long-term energy contracts both with European partners and countries from the post-soviet space which allow it to have business stability. From this point of view it can be perceived that Russian energy enterprises serve the interests of Russian foreign policy and are used as a bargaining chip to restore Russia' power and increase its leverage in neighboring countries.

The second part of the argument can be conceptualized by the theory of liberalism which talks about preferences between states and other domestic actors such as non-governmental organizations and private companies.⁴⁴ Here, not only the foreign policies of the country play important role, but also strategies selected by the leading energy companies, which actually sometimes contradict to state's interests. Moreover, neoliberalism which argues that states seek to find mutual interests with other states striving for cooperation rather than rivalry can be also applied as a theory since Russia understands that in the current changing geopolitical situation in the Central Asia, where the countries seek to diversify their energy relations and tend to establish ties with other outside powers such as the European Union, the US and China, it is important for Russia to maintain cooperation with these actors in order to preserve its positions in the region and guarantee access to natural resources for itself.

The two above-mentioned frameworks in general represent Russia's existing foreign energy strategy, in the example of the Caspian Sea region, which is distinguished by two schools of thoughts.⁴⁵ The first was announced by Viktor Chernomyrdin, former Russian Prime Minister, and is supported by other governmental and business officials working in energy sphere. This school understands the importance of international cooperation in Central Asia and considers that Russia should work together on management and development of the energy industry with other actors in the region. They encourage Russia's participation in joint projects with other countries since it will receive much more various

⁴⁴ Mark W. Zacher, Richard A. Matthew, *Liberal International Theory: common Threads, Divergent Strands* in Charles W. Kegley (ed.) *Controversies in International Relations Theory: Realism and the Neoliberal Challenge*, Foundations of International Relations Theory, 1995, 105

⁴⁵ Rosemarie Forsythe, "The Politics of Oil in the Caucasus and Central Asia", Oxford University Press, 1996, p. 15-16

benefits from this joint cooperation and also have an opportunity to develop and advance Russia's technologies, infrastructure, and share the existing knowledge in the energy sphere. Moreover the supporters of this school see that inclusion of Russian into international consortium guarantees the access to capital and natural resources.⁴⁶ The second school being entirely in opposition with the first, was promoted by Yevgeny Primakov, former Russian Foreign Minister, and other officials who believe that Russian foreign policy should be created within a long-established framework of balance-of-power.⁴⁷ In July 1994 Mr. Primakov, Director of the KGB at that time, and Andrey Kozyrev, former Foreign Minister of Russia, encouraged President Yeltsin to sign a secret roadmap "On Protecting the interest of the Russian Federation in the Caspian Sea" which explicitly claims that Russia should restore, protect and expand its position and influence in the region.⁴⁸ This group mainly views oil as an instrument of sustaining and maximizing this influence and sees the extraction and transportation of oil in zero-sum perspective⁴⁹ rather than as cooperation with other countries.

⁴⁶ Rosemarie Forsythe, *The Politics of Oil in the Caucasus and Central Asia*, Oxford University Press, 1996, p. 15-16

⁴⁷ Ibid, 18

⁴⁸ Robert Barylski, *The Russian Federation's Post-Communist Foreign policy*, University of South Florida, 2008, 94

⁴⁹ Zero-sum perspective – the view that the necessarily should be a "winner" or more powerful and influential country in the relationships between two or more states, where one actor would always play a role of a dominant power and another would be under its control and influence.

Chapter 2: Russian energy disputes

The next chapter will briefly look at the main characteristics of the three Russian energy enterprises, Gazprom, Lukoil and Inter RAO UES, which represent different types of ownership and occupy leading positions in three main energy industries correspondently: gas, oil and electricity, with the purpose of identifying their main spheres of interest, the projects outside Russia they prefer to participate in and to retrace the influence of the ownership type on their behavior. Moreover, it focuses on causes and implications of different energy disputes between Russia and three groups of other actors: European Union members, Ukraine and Belarus and Central Asian and Caucasus states with the aim to apprehend the main incentives and interests of the Russian Government in these disputes.

2.1 General characteristics of Russian energy companies

Basing on different types of ownership, the majority of Russian energy enterprises also differ by the degree of dependency on the Government and its role in their policies. Though it is difficult to distinguish clearly the correlation between the type of the company and Government's role, the behavior of the former, variety of projects it participates in and its activity outside the country can serve as an example of this connection. The biggest Russian energy enterprises such as Gazprom, Lukoil and Inter RAO UES demonstrate it on their examples.

Among different types of Russian energy companies Gazprom can be mostly characterized as the largest Russian enterprise controlled by the Government.⁵⁰ Being formerly supervised by ex-Prime Minister Viktor Chernomyrdin, 50.002 percent of Gazprom's shares now belong to the Russian

⁵⁰ Jonathan P. Stern, *The Future of Russian Gas and Gazprom*, Oxford University Press, 2005, 45

Government, represented by the Russian Federal Agency for Federal Property Management (Rosimushchestvo), Rosgazifikatsiya and Rosneftegaz.⁵¹ Moreover company's board of directors includes several Russian Ministers with Viktor Zubkov, the First Deputy Prime Minister, as the chairman of it. The prevailing view that not only the Russian Government dictate their rules to its energy enterprises but also the latter, in their turn, can influence the foreign policies of the state pursuing their own commercial interests⁵² can be observed in Gazprom's behavior. The company is actively promoting and supporting the state's relationships with countries where it has already launched its gas projects or is planning to expand its business.⁵³

In 1997 Gazprom occupied the first place among eight other Russian energy companies according to the degree of its capitalization. The largest projects implemented by Gazprom are: South and Nord Streams, Sakhalin II, Eastern Gas Program, Yamal and Shtockman.⁵⁴ Various agreements of Gazprom with post soviet Central Asian republics allowed Russia to become the monopolistic power in Central Asia. As an example, in 2000 Gazprom allowed Turkmenistan to use its gas pipelines to provide Russia with energy for its internal consumption while Gazprom could implement the contracts signed with the European partners regarding the export of Russian gas. In 2003 the Russian Government concluded an agreement with Turkmenistan which gives Russia an exclusive right for export of all natural gas produced in Turkmenistan during the next 25 years. Moreover, Russia pursued the policy of offering good export prices to Turkmenistan what guarantees it the stability in the relationships with Turkmenistan since the latter would unlikely find partners among other countries which would offer better pricing conditions. Two years later, Russian state-controlled gas monopoly company Gazprom agreed with KazMunaiGas, Kazakhstan's state natural gas transit company, to transfer natural gas

⁵¹ Gazprom's Annual Report 2008, Gazprom. 2008, http://www.gazprom.ru/documents/Report_Eng.pdf

⁵² Rober H. Donaldson and Joseph I. Noguee, *The Foreign policy of Russia: Changing systems, Enduring Interests*, third edition, Library of Congress, 2005, 174

⁵³ Ibid, p. 175

⁵⁴ Official web-site of Gazprom, <http://www.gazprom.com/>

resources from Turkmenistan and Uzbekistan for the period of five years. Moreover in 2006, two agreements were signed between Gazprom and Uzbekistan stating about Russian commitment to development of energy sector in Uzbekistan. Thus Gazprom acquired control over gas exports in all three Central Asian courtiers.⁵⁵ Moreover, supporting Russia's policy of recognizing the independence of South Ossetia, Georgia's separatists' enclave, Gazprom is involved in establishing energy relationships with this region. In 2006, Gazprom started the construction of the Dzuarikau – Tskhinval pipeline which was launched in August 2009⁵⁶ to supply gas to South Ossetia, which previously received gas deliveries from Georgia before the Russian-Georgia conflict in August 2008.

Nowadays state-controlled Gazprom controls all the gas supply and the gas pipelines bringing natural gas from Central Asia for export. With the help of the company Russia became the monopoly in export, import and transportation of oil and gas resources in Central Asia and Caucasus. Generally, the Russian Government and Gazprom have mutual strategic interests to prevent the Central Asian states diversify their energy export routes avoiding Russian energy infrastructure and not to allow other countries to gain unlimited access to natural resources in the region.

Comparing to Gazprom, Lukoil nowadays is a privately-owned energy company in Russia where the Government control zero percent of the shares and the private stakeholders govern the share capital. Approximately 20 percent of the company's shares belong to ConocoPhillips, international energy enterprise, Vagit Alekperov, President of the company and Leonid Fedun, co-owner and vice-President, own around of 15 percent, while the rest of assets are opened for a sale.⁵⁷ Moreover, as it can be observed in Table 1, the company does not have any current Government representative in its board of directors in contrast to Gazprom. Though Vagit Alekperov served in the position as a first deputy minister of the Ministry of Oil and Gas of the Soviet Union in 1990-1991, and Valery Grayfer was the

⁵⁵ International Crisis Group, Central Asia's Energy Risks, Asia Report 133, 2007

⁵⁶ Official web-site of Gazprom, <http://www.gazprom.com/>

⁵⁷ *Lukoil Factbook 2009*, Lukoil, 2009, http://www.lukoil.ru/Factbook_2009.pdf

Deputy Minister in the same Ministry, they designed the policy of independence which does not fully correspond to the policies of the Russian Government and the company is able to carry out till now.

Table 1. Leading Russian Energy Companies in 2008 and 2009⁵⁸

Company	CEO	BoD Chairman	State Stake (%)	Oil Production (in million ton, 2008)	Gas Production (in billion cubic meters, 2008)	Market Value (in \$ billion according to Forbes, 2009)
Gazprom	Alexei Miller	Victor Zubkov ¹	50.002%	12.7	550.5	74.55
LUKOIL	Vagit Alekperov	Valery Grayfer	0% ³	90.2	14.2	26.62
Rosneft	Sergey Bogdanchikov	Igor Sechin ²	75.16%	113.8	13.0	34.07
Surgutneftegas	Vladimir Bogdanov	Vladimir Erokhin	0%	61.6	14.1	19.65
TNK-BP	Mikhail Fridman	Mikhail Fridman	0% ⁴	68.7	10.1	9.45
Gazpromneft	Alexander Dyukov	Alexei Miller	0% ⁵	30.7	2.1	n/a

¹ former prime minister of Russia.

² deputy prime minister of Russia.

³ 20 percent owned by ConocoPhillips.

⁴ 50 percent owned by BP.

⁵ 55.9 percent owned by Gazprom, 16.9 percent owned by Gazprom Finance BV.

In the post Soviet period the oil industry in the Russian Federation underwent the most tremendous transformations among other essential changes that were experienced by the country on its way to the market-based economy.⁵⁹ In 1991, Lukoil or LangepasUrayKogalymneft at that time, initially a state oil enterprise which comprised three oil refining firms in Novoufimsk, Perm and Volgograd, and three oil-related companies - Langepasneftegaz, Urayneftegaz, Kogalymneftegaz, was created by the order of the Council of Ministers of the Soviet Union. In 1992, Lukoil was still among 300 other Russian

⁵⁸ Nina Poussenkova, *The Global Expansion of Russian Energy Giants*, Journal of International Affairs, Spring/Summer 2010, Vol. 63, No. 2.

⁵⁹ Iskander Seifmulukov and David Lane, *Structure and Ownership of the Post-Soviet Russian Oil Industry*, in David Lane (ed.), *The Political economy of Russian Oil*, (USA: Rowman & Littlefield Publishers Inc.), 1999, 19-20

oil companies and enterprises operating in the sphere of oil extraction and refining, which were entirely owned by the Government.

Pursuing the plan of distributing its sales among private owners the management of the company had three primary goals at that moment: to avoid the decrease of the cost for its shares on the stock market, to pull a large amount of investments and to maintain complete control over the company by itself.⁶⁰ In April 1995, while the Russian Government still seized 80 percents of Lukoil's shares, the company managed to boost its capital stock more than 1.5 times, from 11.9 to 17.9 billion rubles.⁶¹ Therefore, Lukoil became the first oil company in Russia that started to possess stocks in subsidiaries and thus underwent the transition from completely state-owned company to the private one. Ten years after the collapse of the Soviet Union, Lukoil and five other energy companies, namely Yukos, Sibneft, Slavneft, Surgutneftegaz and Tyumen Oil, became private and started to be the major dominating enterprises in Russian oil industry. In 2003 they jointly constituted about 75 percent of total Russian oil output, 80 percent of oil exports, and 60 percent of proven oil reserves in Russia and also were in the 50 biggest oil companies in the world.⁶²

At present, Lukoil receives annual revenue of about US\$107 billion and net profit of approximately US\$9.1 billion.⁶³ Representing 1.1 percent of global oil reserves and 2.3 percent of all oil production in the world, Lukoil is also the second largest private publicly traded oil company by proven reserves of hydrocarbons, the sixth largest private publicly traded energy enterprise worldwide by production of hydrocarbons, which accounts to 19 percents of oil refining and 18 percents of oil production in Russia.⁶⁴ Consequently, Lukoil is also the biggest tax payer in the country what presupposes the interest of the Russian Government in the prosperity and financial stability of the

⁶⁰ Li-Chen Sim, *The Rise and Fall of Privatization in the Russian Oil Industry*, (Oxford: Palgrave Macmillan), 2008, 74

⁶¹ Iskander Seifulmulukov and David Lane, *Structure and Ownership of the Post-Soviet Russian Oil Industry*, in David Lane (ed.), *The Political economy of Russian Oil*, (USA: Rowman & Littlefield Publishers Inc.), 1999, 26-28

⁶² Ibid, 29

⁶³ Lukoil, Official web-site, <http://www.lukoil.com/>

⁶⁴ Ibid

company and thus the support for Lukoil's activity and projects. However, the existing cases of contradiction between company's plans and the state's position reveal the conflict of interests between the two.

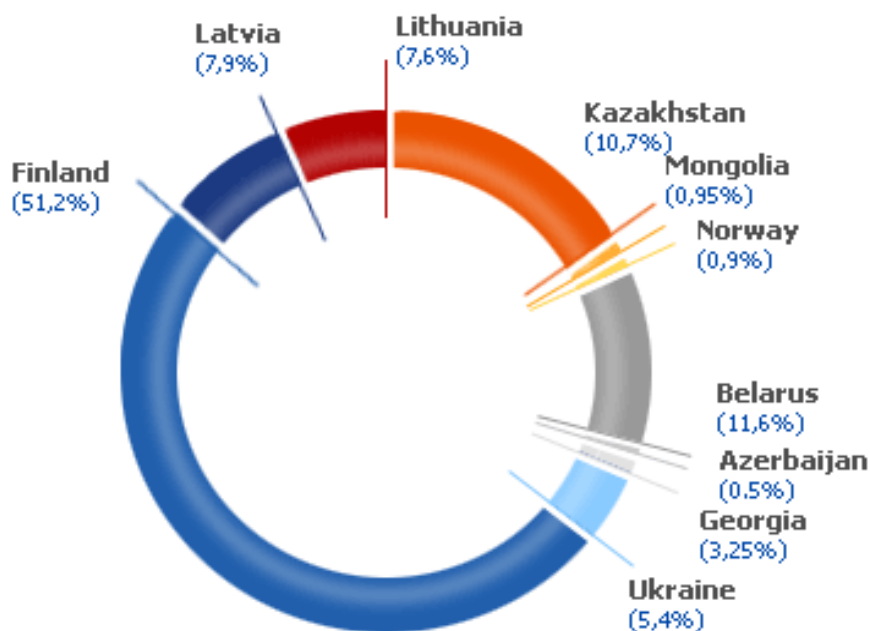
The marketing system of the company covers 24 countries, in particular Western countries such as Poland, Finland, Croatia, Slovakia, the Czech Republic, Hungary, Serbia, Montenegro, Bulgaria, Romania, Hungary, Macedonia, Belgium, Luxemburg, Turkey, Cyprus and the USA, and former Soviet republics, namely Ukraine, Belarus, Moldova, Lithuania, Latvia, Estonia, Azerbaijan, including Georgia with whom generally Russia has strained relations and is not willing to maintain any diplomatic ties.

Another representative of Russian energy industry is the Open Joint-stock company (OJSC) Inter RAO Unified Energy System (UES) – the biggest public energy company and the main leading importer and exporter of electric energy in Russia which provides electricity not only on the territory of the country, but also in several post-Soviet states. Inter RAO UES was created in spring 2008 as a result of reform in Russia's power industry which led to a merger between Closed Joint-stock company (CJSC) Inter RAO UES and several other companies located in Russia. Before that, CJSC Inter RAO UES was founded by OJSC RAO UES of Russia in May 1997 with the main objective to launch generation and export of energy to the international markets, in particular to Scandinavia, China and. Till 2003 pursuing the policy of expansion abroad the company increased its foreign energy sales and invested around it expanded into international energy sales and invested US \$350 million in foreign assets, particularly in the power plants in *Georgia*. Since then company has acquired even more plants outside Russia and currently possesses its assets in 20 companies located in 14 neighboring countries such as Finland, Turkey, Armenia, Kazakhstan, Tajikistan, Moldova and *Georgia*.

Shares of Inter RAO are publicly operated on the Russian Trading System and on the Moscow Interbank Currency Exchange. In March 2008 Rosatom was empowered by Russian Prime-Minister Vladimir Putin to obtain a 60 percent share from RAO UES which currently holds 57.3 percent of

shares.⁶⁵ As it can be observed in the table 2, Kazakhstan, Belarus and Finland are the major recipients of electricity exports from Inter RAO UES and comprised more than 73% of all exports. Electricity is also supplied to Azerbaijan, *Georgia*, Ukraine, Latvia, Lithuania, Mongolia and Norway.⁶⁶ The imports of electricity, illustrated in the table 3, mainly come from the energy grid systems of Azerbaijan (11%), Kazakhstan (70.9%) and *Georgia* (14.2%), which totally constitute to 96.1% of all imports of the company.⁶⁷

Table 2. The main Electricity Exports of Inter RAO UES

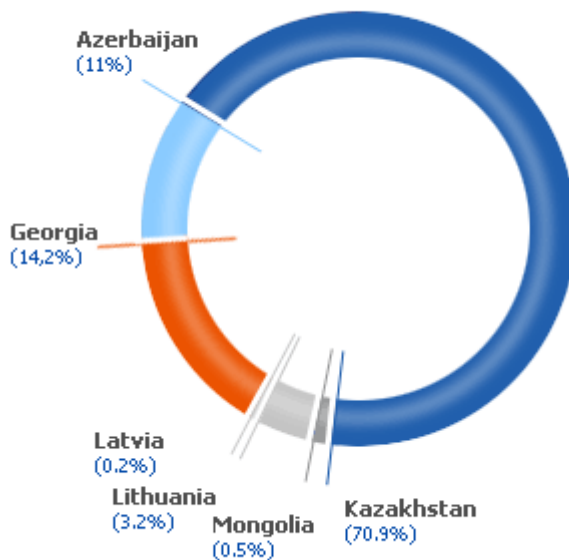


⁶⁵ Inter RAO Unified Energy Systems, Official web-site, <http://www.interrao.ru/eng/>

⁶⁶ Ibid

⁶⁷ Ibid

Table 3. The main sources of electricity imports of Inter RAO UES



Despite Rosatom's large stake in the shares of the OJSC Inter RAO UES, the company managed to maintain sufficient independence from the Russian Government and to pursue its own policy of profit maximization which gives it exclusive status as one of the main providers of electricity in a number of post-Soviet countries, especially in *Georgia*.

Three Russian energy enterprises exemplify the linkage between different types of ownership and activities of companies in Russia, the with state-controlled Gazprom mainly advocating the domestic and foreign policies of the Russian Government the other two, Lukoil and Inter RAO UES following their commercial and strategic interests. Though it does not imply that Gazprom is not interested in profit maximization and in pursuing its own business interests, but the fact the Gazprom was never engaged into disputes with the Government while the other two were involved in such⁶⁸ leads to the conclusion that the company generally shares the interests of the state and tries to correspond to them except the cases where it can be obviously justified.

⁶⁸ See chapter 3

2.2 Disputes with the members of the European Union

There are several energy disputes between Russia and The European Union (EU) member states in which the former was mainly accused of using its political leverage to influence the inter-state relationships and put more political pressure on its partners. In July 2006 there was a case of cutting down the oil supply to Mažeikių, the Lithuanian oil Refinery Company, as a result of spilling oil in the Druzhba pipeline system which happened in Bryansk oblast, in Russia, that is situated close to Lithuanian and Belarusian branches of the main export route. It was announced by Transneft which controlled the oil export pipeline that approximately two years were required to fix the broken segment of the pipeline.⁶⁹ Despite Russia's official position that the shutting down of energy supplied was principally caused by the technical damage and incapably to implement the oil deliveries to Lithuania,⁷⁰ the later claimed that the main incentive for this case was the sale of the Mažeikių refinery by Lithuania to PKN Orlen, Polish energy company, with the purpose to prevent the sale of the same refinery and other energy-related infrastructure to Russia. Unfortunately, the opinion that Russia was pursuing other interests in this dispute rather than experiencing obvious technical challenges lacks the evidence and official proves of this position except the accusation from the affected side.

In July 2008, following the dispute with Lithuania, Russia decreased the supply of oil to the Czech Republic through the Druzhba pipeline resulting in a 50 percent reduction of energy supplies. In their statements, officials of the Transneft, the main operator of the oil pipeline with 100 percent of shares owned by the state, opposed any opinion that the decrease of the energy supply was influenced by the signing of the radar agreement between the US and the Czech Republic.⁷¹ They explained that it was

⁶⁹ Natalia Zubarevich, *Big Business in Russia's Regions and Its Role in the Federal Reform*, in Peter Reddaway and Robert W. Orttung (ed.) *The Dynamics of Russian Politics: Putin's Reform of Federal-Regional Relations*, vol. II, (USA: Rowman & Littlefield Publishers Inc)., 2005, 106-108

⁷⁰ Radio Free Europe/Radio Liberty Newslines, <http://www.rferl.com>

⁷¹ Press release from July 2008, Transneft, Official web-site of Transneft, <http://www.transneft.ru/>

done mainly for commercial purposes and became an implication of the fact that Bashneft and Tatneft started to implement more oil refinery on their own plants.⁷² Vladimir Putin, Russian Prime Minister at that time, gave an order to Igor Sechin, Deputy Prime Minister to investigate the situation and “work with all partners to make sure there are no disruptions”.⁷³ Before the dispute between Russia and the Czech Republic occurred, the latter announced about allocation of a tracking radar as a part of an antiballistic missile system on its territory, according to the contract with the United States, which was immediately perceived as a threat to its own security by Russia. Taking into the account this circumstance it can be argued that the case of reduction of oil supply for the Czech Republic had a political background, namely the intentions of the Russian Government to take to take revenge over the tracking radar agreement. However, officially there are no claims and evidence of the connection between these two events.

Tracking the assumption concerning the involvement of political background in various energy disputes between Russia and other states, and taking into account that Transneft as a main actor in both cases is a state-owned company, the above-illustrated disputes can be viewed as political intervention into energy relations between Russian and other European companies. However, in general, Russia’s relationships with the European Union could be generally described as positive and potentially favorable for both sides at that time.⁷⁴ The EU being the major trading partner for Russia and the main destination of Russian export of its natural gas constitutes an important actor in Russian foreign policy. Realizing the importance of these relations, Russia should have understood that the energy tensions would spoil its reputation as a reliable partner for Europe and worsen the relations between two.

⁷² Press release from July 2008, Transneft, Official web-site of Transneft, <http://www.transneft.ru/>

⁷³ Peter Reddaway and Robert W. Ortung, *The Dynamics of Russian Politics: Putin’s Reform of Federal-Regional Relations*, vol. II, (USA: Rowman & Littlefield Publishers Inc.), 2005, 49-50

⁷⁴ Laszlo Poti, *Putin’s European Policy*, in Janusz Bugajski and Marek Michalewski (ed.), *Toward an Understanding of Russia: New European Perspectives*, (New York: Council on Foreign Relations), 2002, 17

2.3 Ukraine and Belarus

Another type of energy disputes over the increase of energy prices occurred between Russia and Ukraine and Belarus with whom historically Russia was maintaining constructive diplomatic relations. March 2005 marked the beginning of the energy dispute between Russia's largest state-owned gas company Gazprom and Ukraine, connected with prices for export of natural gas from Russia to Europe through Ukraine and prices for Ukrainian domestic gas consumption. Since the parties involved did not manage to achieve consensus over the dispute and the issue remained unresolved, Russia shut down the export of gas to Ukraine on the 1st of January 2006.⁷⁵ After three days, when the preliminary agreement was reached by Ukraine and Russia, the implementation of gas export was brought back. However, Gazprom tremendously increased the gas price for Ukraine after that. The dispute occurred again in October 2007 and then at the beginning of January 2009 when Gazprom again stopped the energy delivery to Ukraine which resulted in leaving 18 European countries without sufficient gas supply which they import from Russia.

This particular case is very controversial and still raises many opinions about the leverage of the Russian Government in this dispute. On the one hand, the cutting off the gas supplies and raising the energy prices can be characterized as a demonstration of economic imperialism⁷⁶, implying reassertion of Russia's strength as an energy power and its attempts to increase the dependency of Ukraine and Europe on gas supplies from Russia. On the other hand, it can be perceived as Gazprom's interests connected with its own financial profitability and not satisfaction with selling the gas to Ukraine below

⁷⁵ Radio Free Europe/Radio Liberty Newslines, <http://www.rferl.com>

⁷⁶ Berlil Nygren, *The rebuilding of Greater Russia: Putin's foreign policy towards the CIS Countries*, Routledge Contemporary Russia and Eastern Europe Studies, 2008, 65

the market prices. Moreover, since the dispute had serious implications on other countries – members of the EU it could have would diminish Russia’s reliability as the EU’s partner.⁷⁷

A similar dispute over the gas prices occurred between Belarus and state-owned energy company Gazprom when the latter announced its intentions to increase prices for its natural gas transmitted to Belarus. From the Belarusian side it was decided to raise the prices for Russian gas destined for Europe and passing the Belarusian territory to \$45 per tone. Later, in January 2007, the delivery of oil to Belarus through the Druzhba pipeline was stopped by Transneft, the Russian state-owned pipeline company, which was indicting Belarus for illegal pumping out of oil from the Druzhba pipeline and thus it stated that it was a necessity to cut off the oil supply. The shutting down of energy exports through Belarus occurred right after Belarus started a legal process against Russia’s inability and unwillingness to pay newly established price of oil shipment tax as, according to Russia’s view, the price was illegal.⁷⁸ When the energy delivery was brought back, three days later, Belarus stated that Russia did not pay a tax transferring oil to Europe through Belarus, which was enforced as an implication of Russia’s raising the prices for gas supplies to Belarus. After all, it was agreed that Belarus would pay approximately \$100 per 1,000 cubic meters of which represented two-times increase of the previous cost, however, still considerable lower than the initial request for increase from Gazprom.

Russia’s energy dispute with Belarus as well as the case with Ukraine raised great criticism in the international community and was mainly accepted as an example of Russia’ ability to use its energy companies as a political tool to threaten the countries by shuttling down energy supplies. However, these accusations of the Russian Government are very ambiguous since at that time Belarus, historically Russia’s partner, enjoyed positive relations with Russia and was still discussing the idea of the common union of two countries. Thus there is no evidence that Russia intended to worsen its political relations

⁷⁷ See previous subchapter

⁷⁸ Jonathan P. Stern, *The Future of Russian gas and Gazprom*, Oxford University Press, 2005,

with Belarus. Moreover, Gazprom was already has subsidized the Belarusian economy with discount gas prices below market level already for several years⁷⁹ and at that time selling its gas to European countries on the level of market prices and. Therefore the decision the increases prices for Belarus can be caused by Gazprom's internal needs.

2.4 Central Asian – Caucasus states

Similar to the situation in other post Soviet countries, in Central Asia and South Caucasus, Russia managed to maintain its influence acting as a major energy power during the period of more than a century and preserve its strong position in the region nowadays. After the collapse of the Soviet Union in 1992 eight Soviet republics in the South Caucasus and Central Asia – Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan, Georgia, Azerbaijan, Armenia – most of which possess rich natural resources found themselves formally independent and followed the direction of establishing new economic and political ties to smooth the transition to capitalism,⁸⁰ opening their borders to their southern neighbors and to China in the East. However, the Russian Federation has historically occupied the dominant position in Central Asia and the Caspian region. Its foreign policy towards the Central Asian countries, mostly designed to satisfy its economic, geopolitical and security interests, was quite successful and helped to establish the indisputable leadership of the Russian Federation in the region.⁸¹ Soviet legacy, existing transport routes and infrastructure in energy sector allowed Russia to establish and maintain its authority and control over energy resources in Central Asia and South Caucasus.

The disputes over energy prices which took places between Russia and South Caucasus states are analogous to those which occurred in Ukraine and Belarus and also can be viewed from economic and

⁷⁹ Radio Free Europe/Radio Liberty Newslane from the 23rd of January 2004, <http://www.rferl.com>

⁸⁰ Lutz Kleveman, «The new great game: blood and oil in Central Asia», Atlantic Books, 2003: 2-3

⁸¹ Rayan Menon and Yury Fedorov, *Russia, the Caucasus and Central Asia*. The 21st Century Security Environment, 1999, 56

political perspectives. In January 2007, the price of gas for Azerbaijan was raised by Gazprom to the level of \$235 per thousand cubic meters and after Azerbaijan's rejection to pay the new price, the delivery of natural gas was stopped to the country. However, in its turn, Azerbaijan also cut off oil deliveries destined for Russia's need and also for transit purposed. In 1996, the same increase in prices was imposed for Armenia with whom Russia maintained relatively positive relationships especially because of Russian support of Armenia in the Nagorny-Karabakh⁸² issue.

In November 2006, just before the referendum in South Ossetia concerning obtaining the independence from Georgia, Gazprom stated about its plan to build a direct gas pipeline to the region of South Ossetia and actually started the construction which caused dissatisfaction of Georgian Government. The conflict over the energy prices took place in Georgia at the beginning of January 2007, when the cost of natural gas delivered to Georgia was increased, and currently constitutes \$235 per thousand cubic meters.⁸³ The dispute occurred at the same time when Russia banned the imports of some Georgian products to the country and while four Russians suspected in spy activities were arrested in Georgia. The above-mentioned tensions with Russia's Gazprom over energy delivery encouraged Georgia to diversify its energy suppliers such as Azerbaijan with whom it agreed about gas imports through Turkish territory in 2007.

In general, Russian relationships with the states in Central Asia and South Caucasus were viewed in the light of influence of the foreign strategy on the energy companies in the region. In general, despite the intense disagreements in Russia concerning the appropriate view to take of Russia's strategic and commercial interests in the Caucasus and Central Asia, and correspondingly fragmented policy implementations, Russia continues to exercise significant influence over the region.

⁸² Nagorny-Karabakh – enclave in the middle of Azerbaijan populated by Armenians, still unresolved dispute between the two countries. Russia is playing the role of mediator in the conflict resolution

⁸³ Nicklas Norling, *Gazprom's Monopoly and Nabucco's Potentials: Strategic Decisions for Europe*, Central Asia-Caucasus Institute and Silk Road Studies Program, (Stockholm: Silk Road Papers), November 2007, 15

Although the energy disputes mentioned in the third chapter were already brought up in the literature, however they were not properly discussed and understood in the framework of foreign policy analyses. Thereby, taking into account the recurring disputes between states over energy exploitation, development and distribution as it was illustrated in the chapter, with the predominant perception of existing political rather than business interests in these disputes, it is important to understand such disputes from different perspectives.

Chapter 3: Conflict of interests between the Russian Government and Russian energy companies

The last chapter discusses the case studies of Russian energy disputes in Azerbaijan, Turkmenistan and Georgia which illustrate the existing controversy in Russian foreign policy and disagreements between the Russian policymakers and officials from Russian energy companies. The aim of the chapter is to argue that energy was not used as a political tool in these cases but rather served the business interests of the Russian enterprises.

3.1 Lukoil in Azerbaijan and Turkmenistan

The dissolution of the Soviet Union in 1991 significantly changed the geopolitics of the Caspian Sea basin which was recognized as a “rapidly growing new area of supply.”⁸⁴ Instead of two states – Russia and Iran, which already had an agreement about delimitation of the Caspian Sea and distinguishing their right of fishing, navigation, trade and energy extraction, five independent countries now were bordering the Caspian Sea and claiming their rights for exploitation of its resources. After gaining their sovereignty, three former USSR republics - Azerbaijan, Kazakhstan and Turkmenistan – driven by the goal to improve their economies by the means of using the natural resources which are located on their side of the Caspian Sea, required the establishment of the legal status of the Caspian Sea and the its new division into national sectors. Thereby a perpetual issue about the partition of the

⁸⁴ Hooman Peimani, *The Caspian Pipeline Dilemma: Political Games and Economic Losses*, (Library of Congress), 2001, 34

Caspian Sea and its natural resources started between all five countries and became a subject of many energy disputes among them.

The Caspian Sea energy resources are mainly located on the territories of Turkmenistan, Azerbaijan and Kazakhstan, thus they were major participants of well-known energy disputes. Moreover, due to their specific geographic location, in particular being the landlocked countries, these three Central Asian states mostly depend on their neighboring states which provide them with export opportunities of their natural resources.⁸⁵ Mostly policies of such outside actor as Russia influenced by domestic, international and commercial interests shape the energy politics in the region.⁸⁶ Within the general “Great Game”⁸⁷ concept currently Russia is the most progressive in obtaining and preserving its control in both South Caucasus and Central Asia, however its political interests faced several challenges and were not always achieved in two regions. Furthermore, Russia always defined this “Great Game” from a zero-sum perspective, where its main goal was to maintain influence and prevent other actors to gain considerable share in the region, while for other actors it was mostly viewed as a conventional balance-of-power rivalry.⁸⁸

On the 20th of September 1994 the State Oil Company of Azerbaijan Republic (SOCAR) which used to belong to the Government of Azerbaijan and became independent around 15 years ago, signed a US\$8 billion agreement also known as a “Contract of the Century”⁸⁹ with an Azerbaijan International Operating Company (AIOC) comprised of international consortium represented by Russian, European, Turkish, Japanese, US, Saudi Arabian energy companies and led by British Petroleum (BP) to explore

⁸⁵ Rosemarie Forsythe, *The Politics of Oil in the Caucasus and Central Asia*, Oxford University Press, 1996, 6

⁸⁶ Ibid, p. 7-8

⁸⁷ Great game – the concept described by my many researches in the field of central Asia o describe the completion that existed in Central Asia since ninetieth century between Victorian England and Tsarist Russia when Russian and British empires were struggling over the Central Eurasia. Later the concept was applied to characterize the revelry between different outside powers such as the US, China and Russia for acquiring influence over the resources and maintaining security in the region.

⁸⁸ Rosemarie Forsythe, *The Politics of Oil in the Caucasus and Central Asia*, Oxford University Press, 1996, 8-9

⁸⁹ Ingolf Kiesow, *The Global Race for Oil and Gas: Power Politics and Principles in Asia*, (Stockholm: The Institute for Security and Development Policy), 2008, 21

and develop the deepwater Guneshli, Chirag and Azeri fields located on the shelf of the Caspian Sea near Baku for the period of 30 years.⁹⁰ The distributions of shares of the Azeri-Chirag-Guneshli offshore field among foreign investors are illustrated in table 4.⁹¹

Table 4. Shareholders of the Azeri-Chirag-Guneshli offshore field

SOCAR (Azerbaijan)	20%
BP (UK)	17.13%
Amoco (US)	17.1 %
Lukoil	10%
Pennzoil (US)	9.82%
Unocal (US)	9.52%
Statoil (Norway)	8.6%
TPAO (Turkey)	6.8%
McDermott (US)	2.45%
Ramco (Scotland)	2.08%
Delta-Nimir (Saudi Arabia)	1.68%

According to estimations the project was to bring around 32 million tons of "early oil"⁹² and 160 milliard cubic meters of gas over the next ten years and the overall profit of approximately US\$100 billion with projected production of the 650 million metric tons of crude oil during 30 years.⁹³ Driven by commercial interests, energy companies Lukoil attracted by the contract's profitability joined the project despite the undetermined status of the Caspian Sea and official position of the Russian Government which opposed any unilateral exploitation of its energy resources.

⁹⁰Michael P. Croissant and Cynthia M. Croissant, *The Caspian Sea Status Dispute : Azerbaijani Perspectives*, Caucasian Regional Studies, Vol. 3, Issue 1, 1998

⁹¹ Oil strategy of Azerbaijan, Heydar Aliyev's Heritage research Center, <http://aliyev-heritage.org/en/oilstrategy.htm>

⁹² Early oil is the preliminary oil produced before the total infrastructure is in place and the fields are producing at maximum capacity.

⁹³ Oil strategy of Azerbaijan from Heydar Aliyev's Heritage research Center, <http://aliyev-heritage.org/en/oilstrategy.htm>

The announcement of concluding this contract immediately became a subject for criticism and dissatisfaction in Russian and Iranian Governments. They were claiming that Azerbaijan did not have any legal right to sign such kind of agreement since the dispute over the Caspian Sea was not resolved yet. At the follow-up meeting of Andrey Kozyrev, Russian Foreign Minister and Mahmoud Vaezi, Iranian Deputy Foreign Minister they both agree that Caspian should be perceived as a lake and thus be divided by the principles appropriate for the partition of a lake. Moreover, Iran demands that the legal status of the Caspian should be based on the agreements between USSR and Iran signed in 1921 and 1940 where the later states that the Caspian is "a Soviet and Iranian Sea" and its exploitation should be based on "the Principles of Equality and Exclusivity". After that, Albert Chernishev, Russian Deputy Foreign Minister at that time, called the Azerbaijan's intentions to explore the Caspian Sea energy resources without any agreement and permission of other member states involved into the unsettled issue as "robbery."⁹⁴

While commenting on the situation, the Foreign Minister of Azerbaijan opposed the proposal from Iran to define the national borders of the Caspian Sea in accordance with the agreement between the Soviet Union and Iran in 1940 since it did not include the sea-floor of the Caspian and that the mineral resource located on Azerbaijan's side of the Caspian shelf should belong "exclusively to Azerbaijan."⁹⁵ Moreover, Mr. Aliev, Azerbaijani President, stated that the division of the Caspian Sea was settled in 1970 by authorities of the Soviet Union and Russia did not have any objections prior concluding of the contract to develop Azeri-Chirag-Guneshli fields.

Later the Russian reaction changed from complaint and accusation and warning¹ (p.23) despite the fact that the Russian energy company Lukoil was directly involved in the project and was expecting

⁹⁴ Richard Hrair Dekmajian and Hovann H. Simonian, *Troubled Waters: The Geopolitics of The Caspian Region*, (London: I.B. Tauris & Co Ltd.), 2003, 86

⁹⁵ Michael P. Croissant and Cynthia M. Croissant, *The Caspian Sea Status Dispute : Azerbaijani Perspectives*, *Caucasian Regional Studies*, Vol. 3, Issue 1, 1998

to receive substantial financial benefits from it. Thereafter, on the 27th of October 1994 Russian President Boris Yeltsin issues an order to the Russian Government to inflict naval, commercial and financial sanctions against Azerbaijan to “punish the country for invoking the contract”⁹⁶, if it does not agree to terminate the oil contract and continue to launch the Azeri-Chirag-Guneshli project. Moreover Russia also contacted the United Kingdom Government with the purpose to warn it not to ratify the contract initiated by Azerbaijan.

The condemnation of this oil agreement by the Russian Government was controversial and inconsistent since Lukoil, being one of the largest oil companies in Russia, was a partner in the international consortium of the project and was to receive a 10 per cent share and what is more the deal was also approved by the Russian Ministry of Fuels and Energy.⁹⁷ Since the project involved variety of international companies from different countries, Russia’s dissatisfaction from the deal might have been caused by the threat that Azerbaijan for the first time decided to diminish Russia’s influence in the country by attracting other major energy companies to develop its oily industry.⁹⁸ In the described dispute between Azerbaijan and Russia, there was obvious distinction between the interests of the Russian Government which was mainly concerned about the political side of the issue and the interests of the Russian oil company Lukoil which was attracted by the financial deal pursuing its commercial benefits.

Following the disagreements that occurred between Russia, Iran and Azerbaijan over the status of the Caspian Sea, Turkmenistan also became the participant of similar dispute in January 1997 when Lukoil and Rosneft, the leading Russian oil companies, signed a \$1bln agreement with State Oil

⁹⁶ Jean-Christophe Peuch, *Russian Interference in the Caspian sea Region: Diplomacy Adrift*, in David Lane (ed.), *The Political economy of Russian Oil*, (USA: Rowman & Littlefield Publishers Inc.), 1999, 73

⁹⁷ The Chief of the main department of the Russian Ministry of Fuels and Energy, Stanislav Pugach, was even present at the ceremony of signing the contract

⁹⁸ Edmund Herzig, “The New Caucasus: Armenia, Azerbaijan and Georgia”, *The Royal Institute of International Affairs*, 1999, p 73

Company of Azerbaijan Republic (SOCAR) after President of Azerbaijan paid a visit to Moscow. The contract targeted the exploration of the offshore oil-rich Kyapaz resources - a third oilfield in Azerbaijan, also known as Serdar in Turkmenistan, which possesses 500 million barrels of oil reserves according to estimations. Russian, Azerbaijan and Turkmenistan became involved in the dispute. Since the issue of delimitation of the Caspian Sea boundaries remained unresolved Turkmenistan claimed that the actions of Russian and Azeri companies were illegal and that the above-mentioned oil field is an integral part of Turkmenistan's sector of the Caspian Sea. The Turkmenistan Government started a political opposition against Russia insisting on division of the Caspian Sea on the principle of the median lines and requesting to cancel Sedar/Kyapaz contract between Rosneft, Lukoil and SOCAR. To support The Turkmen Ministry of Foreign Affairs released supporting materials, including maps, claiming complete ownership of not only the Kyapaz/Serder field but also of the Azeri field and partial ownership of the Chirag field, which was also claimed by Azerbaijan. It asserted that all three fields were closer to Turkmenistan's shore. Raising the stakes of its protest, Turkmenistan also raised the issue of Russia's action at a mid-July 1997 meeting of the Organization for Security and Cooperation in Europe (OSCE), and Turkmen officials also complained that Russia's actions show that it did not play the role of "equal partner" in the Commonwealth of Independent States.

Moreover, despite the disagreement with Turkmenistan's position Russian oil enterprises Lukoil and Rosneft contradicted to the policy of the Russian Government itself, since at that time the Russian Foreign Ministry persisted on the fact that the Caspian Sea should be perceived as an "inland lake" under international law and thus no bordering state can exercise unilateral control over the natural resources of the Caspian Sea without the concurrence of other neighboring countries. Thus, pursuing their own goals of profit maximization Rosneft and Lukoil did not correspond to the main position of the Russian

authorities by joining the This Kyapaz/Sedar project. It was obvious that Russia's and Azerbaijan's positions were mainly driven by commercial interests.

However, in the first case, despite the disagreement that occurred between the Russia and Azerbaijan and as an implication between the Russian Government and Lukoil, the Company continued to participate in the project preserving its 10 percent share in the contract till 2003. For Lukoil it was important to participate in international consortium as it gave it additional access to natural resources of the Caspian Sea and an opportunity to receive large financial gains. Only in November 2002 after 8 years of investment did Lukoil Overseas (BVI) announce the sale of its stake in Azeri-Chirag-Gunashli project to INPEX Southwest Caspian Sea Limited, an affiliate of INPEX Corporation and the Japan National Oil Corporation and signed the list of the main conditions of this deal. Later, in April 2003 Lukoil completed the sale of its full 10 percent share in Azeri-Chirag-Gunashli project to INPEX for approximately \$1.354 billion in cash.⁹⁹ The deal comprised of a 10 percent share in the project's production sharing agreement, an 11.11 percent share under the related joint operating agreement and a 10 percent interest in each of the Azerbaijan International Operating Company and the Georgian Pipeline Company and interests in other additional project assets.¹⁰⁰

Commenting on the transaction, Mr. Vagit Alekperov, President of Lukoil, said that he is glad to implement "one of the largest and most important oil and gas deals in the region in recent history."¹⁰¹ He also states that "his transaction delivers value to our shareholders and completes yet another step in our promised restructuring process. For Azerbaijan, this transaction represents further evidence of investor confidence in its world-class reserves base and future prospects. Our commitment to Azerbaijan remains as strong as ever and was recently demonstrated by our agreement with SOCAR earlier this month to expand our involvement in the Yalama D-222 Block. We appreciated working with British Petroleum

⁹⁹ Press Release from November 2002, Lukoil, Official web-site of Lukoil, <http://www.lukoil.com/>

¹⁰⁰ Ibid

¹⁰¹ Ibid

and the other consortium partners and wish them and INPEX great success in their future work together in Azerbaijan.”¹⁰² In general, the contract was concluded in frames of the restructuring program of the Company and presented a great opportunity for Lukoil to monetize its fairly appraised assets. According to Mr. Alekperov the Company will pursue the policy of finishing its contracts in the projects where it does not possess the right of an operator.¹⁰³ Despite of leaving the project, Lukoil is still interested in participating in joint projects on exploration of oil and gas fields in the region of Caspian Sea and in particular in maintaining close ties with the Republic of Azerbaijan.

In contrast, in the second case between Russia, Azerbaijan and Turkmenistan, Lukoil and Rosneft were finally encouraged to leave the project aimed at development of field which legally belonged to Turkmenistan. As a response to Turkmen opposition to the Kyapaz/Sedar project in July 1997 the Russian Government deployed a high-level committee with Valeriy Serov, Russian Vice Premier to Ashkhabad, being in charge of it. Mr. Serov claimed that the Russian government had not been fully informed of the details of the commercial agreement drawn up by the Russian energy companies, but, according to some reports, he also initially tried to defend the merits of the deal.¹⁰⁴

Since Turkmenistan's Government refused to take part in negotiations over the Caspian Sea status and its division between the littoral states till Russia revoke the contract and persuade Lukoil and Rosneft to withdraw from the project¹⁰⁵ the Russian Government tried to facilitate the process of conflict resolution and soon stated that Russia would make a public announcement about the abolition of the Kyapaz/Serder oilfield deal. After coming to the agreement that Serdar/Kyapaz legally belongs to Turkmenistan's national sector of the Caspian seabed, Russian and Turkmen Presidents encouraged

¹⁰² Press release, Lukoil, November 2002, Lukoil, Official web-site, <http://www.lukoil.com/>

¹⁰³ Ibid

¹⁰⁴ Shrin Akiner, *The Caspian: politics, energy and security*, (London and New York: RoutledgeCurzon), 2004, 76

¹⁰⁵ Ibid, 78

more prompt actions on finding "a solution to get out of the deadlock and the signing of a convention"¹⁰⁶ concerning the legal status of the Caspian Sea. As an outcome of Russian investigation of the case with Lukoil and Rosneft participation in the disputed area in August 1997 Russian Government insisted on withdrawal of companies from the project, and further, Niyazov and Yeltsin announced the nullification of Kyapaz/Sedar contract concluded before by Rosneft and Lukoil calling for maintaining closer cooperation with Turkmenistan in the Caspian.

Just after the dispute between Turkmenistan and Russia was settled later Russia decided to make significant concessions on the issue of legal status of the Caspian Sea and agreed to divide the bottom and subsoil of the Caspian Sea into national sectors.¹⁰⁷ Therefore, it meant the victory for the states that advocated the sectoral delimitation and also the great contribution of Russian energy companies, such as Lukoil, involved in the previous disputes, in fostering the settlement of the issue.¹⁰⁸ In both cases it was of more importance for Russian oil companies, Lukoil and Rosneft to preserve their own commercial interests since they realized the considerable financial revenue that they could receive from participation in mutual Caspian energy projects in Azerbaijan and Turkmenistan.

3.2 Inter RAO UES in Georgia

Relationships between Russia and Georgia have been experiencing downfall since the collapse of the Soviet Union constantly revolving around the issue of proclaimed independence of two Georgian separatists regions, Abkhazia and South Ossetia. Moreover, Russia is constantly supporting separatists' regimes of these two territories and recognized their independence after the August's events which

¹⁰⁶ Ibid, 79-80

¹⁰⁷ Christopher Len and Alvin Chew, *Energy and Security Cooperation in Asia*, (Stockholm: The Institute for Security and Development Policy), 2009, 58-60

¹⁰⁸ Ibid, 61

caused severe criticism and resentment of Georgian side. Moreover, in September 2008 as an implication of Russian – Georgian Conflict in August 2008, Georgia announced about breaking all the diplomatic ties with Russia.

Despite the ongoing tensions in the relationships between Russian and Georgian Governments which escalated after the conflict between the states in August 2008, in December 2008 Russian company, Inter RAO UES announced about concluding the agreement which would give the right to the company to supervise the Inguri hydroelectric plant together with Georgian partners for 10 years.¹⁰⁹ The plant provides Georgia with approximately 50 percent of its electricity and is located on the border between Georgia and its separatist enclave – Abkhazia, and has its dam on the territory of Georgia and the controls remain on the side of Abkhazia. Georgians became cautious about this plant and afraid of loosing the access to it after Abkhazian separatists seized control of the region in 1993 and started to proclaim independence of Abkhaz Autonomous Republic.¹¹⁰

The contract caused massive resistance from members of the Opposition of Georgia's Parliament who claimed that the project would only give the opportunity to Russian Energy Company to obtain control over the hydroelectric plant that supplies almost half of the country's electricity.¹¹¹ The examples of Ukraine and Belarus were brought up as an illustration of potential implications of this agreement with Russian OJSC Inter RAO UES. The Georgian Government was accused in betrayal for signing contracts with Russia which is perceived as an occupier.¹¹² The official Georgian position, expressed by Georgian Energy Minister was that this joint project with Inter RAO UES would provide energy security and stability of energy supply to Georgia taking into account the current status of relationships between Georgia and Abkhazia. Moreover, from the Russian side it was agreed to pay

¹⁰⁹ Inter RAO Unified Energy Systems, Official web-site, <http://www.interrao.ru/eng/>

¹¹⁰ Radio Free Europe/Radio Liberty Newslines, <http://www.rferl.com>

¹¹¹ Olesya Vartanyan and Ellen Barry, Georgia's Energy Minister Is Assailed for Deal with Russia, from New York Times, January 13, 2009, <http://topics.nytimes.com/top/news/internations/countriesandterritories/georgia/index.html>.

¹¹²

around \$9 million to Georgia annually for managing the plant in comparison to the previous situation when the electricity from the Inguri hydroelectric plant was transferred to Russian north Caucasus and Abkhazia but was not paid for. Thus, since Russia proposed vary favorable and beneficial conditions for management of the Inguri hydroelectric plant Georgia could not miss the opportunity and reject the deal.

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The case illustrates that the Russian company is still interested in maintaining business relations with Georgia despite the limited relationships between the Russian and Georgian Governments and their not constrictive relations. Inter RAO UES is pursuing its own policy of expansion by purchasing shares in foreign companies and projects as it is illustrated on the case of Georgia, and thus preserves a status of relatively independent business entity.

¹¹³Emmanuel Karagiannis, *Energy and Security in the Caucasus*, (London and New York: RoutledgeCurzon), 2002, 48

Conclusions

Frequently, energy disputes are perceived as an exercise of a state's power and intention to gain more influence in relations with other countries. Thus, after recent energy disputes between Russian energy companies and neighboring countries Russia was accused of disregarding its major energy corporations dominating on international markets in favor of its foreign policy interests.

The thesis was aimed at analyzing Russian foreign energy strategies and exploring the interconnection between them and behavior of Russian energy companies. The main research area explores to what extent Russian energy companies involved in different projects serve the interests of the Russian government and how they are used to exercise political influence. The thesis identified cases of joint projects and agreements concluded by leading Russian energy enterprise in Post-Soviet space which contradict the main interests or direction of Russian foreign policy.

Exploring the cases of disagreements between leading Russian energy enterprises and Russian state authorities using the examples of Azerbaijan, Turkmenistan and Georgia, the thesis has mainly argued that foreign policy of the state is not always reflected in the behavior of the private actors such as energy companies which prefer to pursue their own commercial interests. And moreover, the diverging interests of political and business actors can lead to contradictions and disputes between them involving other actors – foreign companies or Governments of states.

The conflict of interest between the Russian Government and Lukoil in Azerbaijan and Turkmenistan illustrates an apparent inconsistency and incoherence between the policy of the Russian state officials and goals of the energy company which was designed to gain more financial benefits. In addition, the cases demonstrate that the growing commercial interests of Russian energy companies' such as Lukoil, can conflict with the political guidelines of the Russian Government and even lead to

changing the state's policy. The illustration of the latter can be viewed in the dispute over the division of the Caspian Sea into national sectors when Russia changed its position because of the effective policies of its energy companies. In the case of Georgia which has complicated relationships with Russia with no potential prospects for improvement of diplomatic ties in the nearest future, Russian Open Joint-Stock Electricity Company Inter RAO UES has been launching various energy projects and expanding its activity in the country.

The cases of Russian energy disputes with different actors such as the European Union's member states, Belarus, Ukraine and other former Soviet republics from Central Asia were also analyzed in the paper. It can be concluded that despite the fact that energy was one of the drivers of Russian foreign policy towards neighboring countries, the concept of energy as a political weapon of the Russian Government can not be generally applied to all Russian energy disputes since different motives and reasons preceded each case.

Though the involvement of the Russian State should not be ignored while studying the energy disputes with other countries, the examination of the three case studies in Azerbaijan, Turkmenistan and Georgia, presented the main findings of the thesis that strategies of Russian energy companies should not be perceived only as a political weapon of the Russian Government since their commercial incentives may not coincide with political decisions.

In regard to the contribution of the current thesis in further research and studies of the role of energy in the foreign policies theory it presents the following. With the widespread view that in the struggle for power maximization and rivalry between states for obtaining more sources of this power, countries employ energy as an inalienable instrument of their foreign policies to achieve influence and predominant positions among other countries. However, taking into account that energy companies not only work in-line of the Government but also can change the state position or go in contradiction with it,

the thesis offers a more complicated approach of studying the role of energy in foreign policy which should be explored from different perspectives.

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