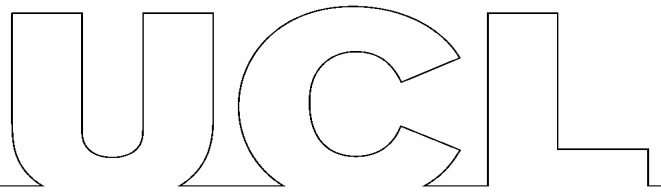


CENTRE FOR THE STUDY OF ECONOMIC AND
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**‘OLIGARCHS’, BUSINESS AND RUSSIAN FOREIGN POLICY:
FROM EL’TSIN TO PUTIN**

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‘Oligarchs’, Business and Russian Foreign Policy:

From El’tsin to Putin¹

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Abstract

The paper investigates the role of private and state-controlled business in the formation and implementation of Russian foreign policy since the collapse of the Soviet Union. The extent to which the ‘oligarchs’ and business more generally followed their own interests in their external relations or acted as tools of the Russian state is a particular focus. Under President Boris El’tsin, Boris Berezovskii was the only one of the oligarchs to have significant influence on Russian foreign policy. President Vladimir Putin’s moves against were the oligarchs motivated partly by the desire to restrict political debate, including on foreign policy, and partly to prevent Mikhail Khodorkovskii from creating a private oil pipeline system which would have subverted Putin’s foreign policy, but the main reason was probably the desire to restore state control over key industrial sectors. Under El’tsin, business had followed its own interests, which sometimes conflicted with Russian foreign policy and sometimes reinforced it; but after Putin’s attacks on the oligarchs, business seemed more integrated into policy implementation, while still following its own interests where they did not conflict with those of the state, as is suggested by a discussion of Gazprom’s foreign policy role.

¹ I am grateful to the British Academy for a place on the exchange with the Russian Academy of Sciences, and to the Institute of World Economy and International Relations for hosting my visit to Moscow. I am also grateful to friends and colleagues at the Moscow State Institute of International Relations (University) for their patient help; and to staff and students of the Post-Soviet Press Group at UCL SSEES. This is part of a study of the relationship between domestic change and foreign policy change in Russia from El’tsin to Putin, which will be published in the Routledge BASEES series. I thank Christopher Gerry and Alan Ingram for comments on an earlier draft.

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The role of the tycoons who emerged to become extremely wealthy and powerful in the 1990s in Russia under President Boris El'tsin and the decline in their political influence under President Vladimir Putin has attracted considerable attention. David Hoffman's *The Oligarchs*, probably still the standard work, has been joined by Marshall Goldman's *The Piratization of Russia* and Stephen Fortescue's *Russia's Oil Barons and Metal Magnates*.³ Little work has been done, however, on the impact of these oligarchs, as they became known, and their political rise and fall, on Russian foreign policy. This paper will seek to address this gap. One of the reasons for Putin's attack on the oligarchs was to make business in general more obedient to the wishes of the state. There is a continuing debate as to how much businesses under Putin pursue their own commercial interests or the political interests of the state, or even whether it is possible to separate the two.⁴ This paper will attempt a contribution to that debate.

I begin by seeking to define what is meant by the 'oligarchs', how the use of the term has changed, who they were in the 1990s and who they are today. The political importance of the oligarchs under El'tsin is then assessed, particularly in relation to Russian foreign policy. Following this, I look at the reasons for Putin's attacks on the oligarchs, and discuss the impact of their political decline on foreign policy. I examine the foreign activity of the Russian energy company Gazprom, which is accused of acting as an instrument of the Russian state, in order to investigate the balance of its pursuit of commercial and political interests. Finally I consider the overall impact of the oligarchs and of Putin's attempts to reassert state control over business on Russian foreign policy.

Who were and are the 'oligarchs'?

Although the word 'oligarch' (*oligarkh*) is widely used in Russia and consequently outside Russia to refer to extremely wealthy Russians, it is not easy to come to a precise definition. Stephen Fortescue notes that specialists often follow President Vladimir Putin's definition as 'These people who fuse power and capital', thereby omitting heads of state-owned enterprises.⁵ The term was originally used in the context of post-Soviet Russia mainly to refer to the group of seven or so bankers who applied their vast wealth and influence to ensure the re-election of Boris El'tsin as President in 1996. Boris Berezovskii, who today is still the most politically active of them, albeit now from his London exile, praised the achievements of the seven in an article in the London *Financial Times* in November 1996. He boasted of their political success and influence, and claimed (exaggeratedly) that they owned up to half the economy. He identified the seven as himself, Vladimir Potanin, Vladimir Gusinskii, Mikhail Khodorkovskii, Aleksandr Smolenskii, Mikhail Fridman and Petr Aven.⁶ David Hoffman adds Vladimir Vinogradov to this list, while Stephen Fortescue omits

³ David E. Hoffman, *The Oligarchs: Wealth and Power in the New Russia*, Oxford: Public Affairs, 2002; Marshall I. Goldman, *The Piratization of Russia: Russian Reform Goes Awry*, London: Routledge, 2003; Stephen Fortescue, *Russia's Oil Barons and Metal Magnates: Oligarchs and the State in Transition*, Basingstoke: Palgrave Macmillan, 2006.

⁴ Of particular significance here is Andreas Wenger, Jeronim Perovic and Robert W. Orttung (eds), *Russian Business Power: The Role of Russian Business in Foreign and Security Relations*, London: Routledge, 2006 (although it does not have much to say about the impact of the oligarchs).

⁵ Fortescue, *Russia's Oil Barons*, pp. xi-xiii.

⁶ Andrei Fadin, 'The Oligarchs in Charge of "Russia Inc."', *Transition*, 3, 6, 4 April 1997, p. 28, citing Berezovskii's article in the *Financial Times*, 1 November 1996. Fadin was a correspondent of the liberal Moscow *Obshchaia gazeta*. He was killed in a car accident in November 1997.

Aven.⁷ As well as their banking interests, these individuals had used their proximity to federal and municipal power structures in Moscow to acquire assets in other sectors, notably oil, metals, communications and the media, in particular through the ‘loans for shares’ schemes of 1995. The late Andrei Fadin noted in 1997 that the term ‘oligarch’ also sometimes included the heads of the partially state-owned Gazprom and Lukoil, Rem Viakhirev and Vagit Alekperov, and the head of the state-owned savings bank Sberbank, Andrei Kazmin.⁸

Before long, the Russian media were using the term to describe more generally the owners and heads of the largest private and state-owned enterprises, such as Anatolii Chubais, now head of the state-owned electricity monopoly Unified Energy Systems. With some hesitation, one can even include Viktor Chernomyrdin, Prime Minister from December 1992 to March 1998, because of his role in the establishment of Gazprom and his appointment after being sacked from the government as Chairperson of the Gazprom Council of Directors. While he was Prime Minister, two close relatives still held positions in Gazprom and he was believed to have a shareholding; his party ‘Our Home – Russia’ was derisively referred to as ‘Our Home – Gazprom’. (Nevertheless, Gazprom hedged its bets in the 1990s by also giving financial support to the Communists, who could be relied upon to resist liberal attempts to break up the monopoly.⁹)

Following the re-election of El'tsin in July 1996, the original oligarchs were placed to receive rewards, not only in the form of further preferential treatment in the privatization process, but also in taking charge of posts in the presidential administration and government. This period was known as the *semibankirshchina*, the rule of the seven bankers. Potanin was appointed First Deputy Prime Minister, with responsibility for the economy; according to Fadin, he was chosen because he was the only one of the seven bankers who was not Jewish.¹⁰ In October, Berezovskii was appointed Deputy Secretary of the Security Council. The open fusion of economic and political power in the late 1990s represented the height of the oligarchs’ influence. The rouble crash and government default of August 1998 and the appointment of Evgenii Primakov as Prime Minister were seen as sharply reducing this power. Vinogradov and Smolenskii lost most of their assets in the rouble crash, while Primakov sought to undermine Berezovskii’s influence in the Kremlin. In 1999, however, Berezovskii fought back, securing Primakov’s removal in May and then using his wealth, connections and media to organize support for the Unity movement and Vladimir Putin in the State Duma elections of December 1999 and the Presidential election of March 2000.

Putin has greatly reduced the political influence of the oligarchs. Gusinskii and Berezovskii are in exile and Khodorkovskii is in prison. Gazprom is now led by Putin’s appointee, Aleksei Miller, who worked with him in the office of the St Petersburg Mayor Anatolii Sobchak. At the same time those oligarchs who have co-operated with Putin have maintained or increased their economic empires. Fortescue sees, under Putin, a new generation of oligarchs succeeding most of the old. They are mainly from industrial backgrounds, especially oil, metals and coal, not banking, and often from the former Soviet industrial *nomenklatura*. He lists Alekperov, mentioned above, Aleksandr Abramov (Evrazkholding, steel and coal), Roman Abramovich (formerly Sibneft, oil), Vladimir Bogdanov (Surgutneftegaz, oil), Viktor Vekselberg

⁷ Hoffman, *The Oligarchs*, p. 328; Fortescue, *Russia’s Oil Barons*, p. 22.

⁸ Fadin, ‘The Oligarchs’, p. 28.

⁹ Goldman, *The Privatization of Russia*, p. 113.

¹⁰ *Ibid.*, p. 29.

(SUAL, aluminium and TNK, oil), Oleg Deripaska (RusAl and Basic Element, aluminium to motors), Vladimir Lisin (Novolipetsk Metal Combine, steel), Iskander Makhmudov (Urals Mining-Metals), Andrei Melnichenko (MDM-Bank), Aleksei Mordashov (Severstal, steel), Viktor Rashnikov (Magnitogorsk Metal Combine, steel) and Alisher Usmanov (Gazmetall, iron ore and steel). Since Fortescue's definition of oligarch excludes state-dominated companies, he does not include Miller of Gazprom or Sergei Bogdanchikov of the oil company Rosneft.¹¹ It should be noted that under Putin the usage of the term 'oligarch' has mutated; since the oligarchs have lost much of their political influence, the term now tends to refer to wealthy business tycoons, but without the connotation of the political power and influence characteristic of the El'tsin era.

The Moscow journal *Finans* in February 2007 found ten Russian citizens with assets exceeding ten billion dollars. In descending order, they were Deripaska, Abramovich, Prokhorov, Potanin, Lisin, Fridman, Alekperov, Suleiman Kerimov (Natfa-Moskva, an oil trader), Mordashov and Vekselberg.¹² Six months later *Forbes* magazine found exactly the same ten men with that level of wealth, but ranked them in a different order: Abramovich, Kerimov, Lisin, Potanin, Prokhorov, Deripaska, Fridman, Alekperov, Mordashov and Vekselberg.¹³ (The differences reflect different methodologies, not dramatic changes in individual fortunes.) Only Potanin, Fridman and Alekperov of the original eleven or so maintained their position at the very top. The fate of the original oligarchs under Putin highlighted the continued dependence of business on the state, which had given the oligarchs their wealth and could then, as the case of Khodorkovskii showed, take it away again. In this sense, the use of the very term 'oligarchs' is questionable. For Aristotle, 'oligarchy' meant the rule of the few for the benefit of the few. The Russian 'oligarchs', however, except when they actually held office as in the cases of Potanin and Berezovskii, were not the real holders of political power in Russia. They were lobbyists rather than decision-makers, on the whole. Even Berezovskii could not always get his own way; after the August 1998 crash, he tried to have Kirienko replaced by Chernomyrdin as Prime Minister, and persuaded El'tsin to nominate him twice; but when the State Duma twice rejected Chernomyrdin, El'tsin instead nominated Primakov, who already was Berezovskii's nemesis in the foreign policy field. The organs of the state, the security services, the police, the armed forces and the courts remained loyal to the president, and already in the El'tsin period sometimes looked with suspicion and jealousy on them. The liberal Boris Nemtsov, Deputy Prime Minister from 1997 to 1998, opposed what he called 'oligarchical capitalism'.¹⁴ Another liberal, Sergei Kirienko, Prime Minister from May to August 1998, refused to meet the oligarchs and sought to rein them in by taxing their companies.¹⁵

¹¹ Fortescue, *Russia's Oil Barons*, p. 23.

¹² 'Reiting rossiiskikh milliarderov – 2007', *Finans*, 6, 12-18 February 2007, <http://finansmag.ru/49030>

¹³ 'The World's Billionaires', 3 August 2007,

http://www.forbes.com/lists/2007/10/07billionaires_The-Worlds-Billionaires_Rank.html. For summaries of the interests of the oligarchs, see Richard Sakwa, *Putin: Russia's Choice*, 2nd edn, London: Routledge, 2008, pp. 252-3; Goldman, *The Privatization of Russia*, pp. 99-102; Andrew Barnes, 'Russia's New Business Groups and State Power', *Post-Soviet Affairs*, 19, 2, April-June 2003, p. 162. For a more detailed discussion, see Aleksei Mukhin, *Oligarkhi. Posledniaia pereklichka*, Moscow: Algoritm, 2006, pp. 67-314.

¹⁴ Hans-Henning Schröder, 'El'tsin and the Oligarchs: The Role of Financial Groups in Russian Politics between 1993 and July 1998', *Europe-Asia Studies*, 51, 6, September 1999, p. 979.

¹⁵ Hoffman, *The Oligarchs*, pp. 419-37.

The dependence of the oligarchs on the state began from the time that they acquired state assets cheaply. The 'loans for shares' deals arose when the government, in dire need of cash, auctioned off blocks of shares as collateral in exchange for loans from the banks. The understanding was that if the government failed to repay the loan, the lender would retain the collateral. In order to maintain Russian ownership, foreigners and foreign companies were prevented from taking part in the auctions. The banks acted as intermediaries in the process of the auction and awarded themselves the assets very cheaply, and then hung on to them when the government failed to repay the loans. In this way Berezovskii and his then associate, Abramovich, acquired Sibneft and Khodorkovskii gained the Yukos oil company.¹⁶ In the late 1990s, the oligarchs and their banks enriched themselves on the high interest payable on government bonds (*GKO*s). Khodorkovskii himself in 1996 admitted the importance of state patronage when he said, 'big business cannot exist without the state'.¹⁷

It is not easy, and may not be possible, to document exactly the level of influence that the oligarchs had on Russian foreign policy. One can analyse their public role in official positions. One can observe how the ownership or control of television channels and the press allowed some oligarchs to influence the climate in which foreign policy was made. Insofar as corporations such as Gazprom and Lukoil were themselves actors in foreign policy, one can analyse the extent to which they were acting on their own commercial behalf or as agents of the Russian state. It is much harder to investigate the behind-the-scenes lobbying of political leaders and foreign-policy professionals by the oligarchs. Although, as just suggested, many in the state apparatus were suspicious of the oligarchs, longstanding Russian traditions of exchanging favours (*blat*) or outright corruption were endemic to the apparatus.¹⁸ In the armed forces it was widespread, enhanced by the opportunities provided by the Chechen Wars.¹⁹ Within the Ministry of Foreign Affairs (MFA), however, it seems to have been less common and certainly harder to document.

The oligarchs and foreign policy under El'tsin

Much of El'tsin's first term in office was marked by chaos in the making of foreign policy, with the foreign and defence ministries and the Security Council competing for El'tsin's ear and in reality pursuing their own policies anyway. After Primakov was appointed Foreign Minister in January 1996, however, policy became relatively more coherent as El'tsin made clear that Primakov had primacy in the field. Most of the oligarchs focussed overwhelmingly on domestic policy and the new round of

¹⁶ On 'loans for shares', see Duncan Allan, 'Banks and the Loans-for-Shares Auctions', in David Lane (ed.) *Russian Banking: Evolution, Problems and Prospects*, Cheltenham: Edward Elgar, 2002, pp. 137-59. More generally on the privatizations, see Chrystia Freeland, *Sale of the Century: Russia's Wild Ride from Communism to Capitalism*, New York: Crown, 2000; Stephen F. Cohen, *Failed Crusade: America and the Tragedy of Post-Soviet Russia*, New York: Norton, 2000; Janine R. Wedel, *Collusion and Collusion: The Strange Case of Western Aid to Eastern Europe, 1989-1998*, Basingstoke: Macmillan, 1998.

¹⁷ Cited in Allan, 'Banks', p. 155.

¹⁸ See Alena Ledeneva, *How Russia Really Works: The Informal Practices that Shaped Post-Soviet Politics and Business*, Ithaca and London: Cornell University Press, 2006; and Alena V. Ledeneva 'Leadership and Corruption in Russia, 2000-2004', London: UCL School of Slavonic and East European Studies, Centre for the Study of Economic and Social Change in Europe, *Working Paper* No. 54, May 2005.

¹⁹ Anna Politkovskaya, *A Dirty War: A Russian Reporter in Chechnya*, London: Harvill, 2001.

privatizations. Increasingly quarrelling among themselves over the spoils, they had little interest in foreign policy.

The late Paul Klebnikov, in his biography of Berezovskii entitled *Godfather of the Kremlin*, claimed that after his appointment to the Security Council in October 1996, ‘no man stood closer to all three authorities at once: crime, commerce and government’.²⁰ Marshall Goldman stated in a book published in 2003 that Klebnikov and others ‘point out that a number of those who opposed Berezovsky in one way or another, including the TV journalist Vladimir Listyev, died prematurely’.²¹ In 2004 Klebnikov himself was murdered. At the time of his murder he was editor of the Moscow *Forbes* edition. Berezovskii’s special responsibility as Deputy Secretary was with Chechnia, which, following the Khasaviurt accords, was experiencing a period of autonomy and relative peace. According to Klebnikov, Berezovskii had connections with Chechen criminals going back to 1993.²² In November 1996, Berezovskii visited Chechnia and Georgia, meeting Chechen Premier Aslan Maskhadov and Georgian President Eduard Shevardnadze in connection with the efforts of the Caspian Pipeline Consortium (in which Russian entities held the largest stake) to secure the transit of oil from Azerbaijan and Kazakhstan. The aim was to restore the war-damaged, and frequently plundered, Baku-Novorossiisk pipeline which passes through Grozny. This route would serve Russia’s geopolitical interests since it would be under Russian control, unlike the alternatives, which were to build branches to Supsa and Poti from the existing line from Baku via Tbilisi to Batumi, or to build a new link from Baku via Tbilisi to Ceyhan in Turkey.²³ Officially, the intention was to stabilize Chechnia by paying the government transit fees. Gusinskii’s newspaper *Segodnia* claimed that Berezovskii’s activity in the Caucasus was motivated by his business interests, specifically his control of the Sibneft oil company.²⁴ The Chechen warlord Salman Raduev appeared to concur, expressing satisfaction at Berezovskii’s involvement in the pipeline plans, saying that ‘he has a personal interest in this oil’.²⁵ By the time of the second Chechen War, Maskhadov came to deplore Berezovskii’s association with Shamil Basaev, who had led the Chechen hostage-takers at the Budennovsk hospital in 1995. Undoubtedly, Berezovskii solved several cases of kidnapping, allegedly by paying ransom to Basaev and other hostage-takers.²⁶ According to Primakov, Maskhadov told him in October 1998 that Berezovskii was financing Basaev and others such as Movladi Udugov who wished to spread the struggle outside Chechnia.²⁷ Telephone tapping evidence appeared to suggest that Berezovskii was financing Udugov as late as July 1999.²⁸ There were even allegations that Berezovskii and Basaev planned the attack on Dagestan of summer 1999.²⁹ Basaev’s later terrorist career probably included the

²⁰ Paul Klebnikov, *Godfather of the Kremlin: Boris Berezovsky and the Looting of Russia*, New York : Harcourt, 2000, p. 3..

²¹ Goldman, *The Privatization of Russia*, p. 135 (quotation) and p. 138.

²² *Ibid.*, p. 12.

²³ On these alternatives, see John Roberts, *Caspian Pipelines*, London: Royal Institute of International Affairs, 1996, pp. 33-7.

²⁴ Olga Romanova, ‘Neftianoi biznes stanovitsia garantom mira na Severnom Kavkaze’, *Segodnia*, 11 November 1996.

²⁵ Klebnikov, *Godfather*, pp. 257-8.

²⁶ Matthew Evangelista, *The Chechen Wars: Will Russia Go the Way of the Soviet Union?*, Washington, DC: Brookings, 2002, pp. 46-56.

²⁷ Evgenii Primakov, *Russian Crossroads: Towards the New Millennium*, New Haven: Yale University Press, 2004, p. 237.

²⁸ Klebnikov, *Godfather*, pp. 300-1.

²⁹ Andrew Jack, *Inside Putin’s Russia*, London: Granta, 2004, pp. 102-12.

seizures of the Nord-Ost theatre in Moscow in October 2002 and he claimed responsibility for the Beslan school action in September 2004.

As Deputy Secretary, Berezovskii also gave attention not only to the Northern Caucasus and Transcaucasia but to the countries of the Commonwealth of Independent States (CIS) in general. He argued in November 1996 that Russia was rapidly losing influence in the former Soviet republics, and needed to restore it by economic rather than political means.³⁰ He spoke out strongly against the plans for NATO enlargement. For example, in February 1997 he wrote: 'There must be no hypocrisy in relation to the problem of NATO enlargement – it is, first of all, a fundamental decision of the West about the impossibility of integration with Russia and, as the global historical experiment showed, this decision is totally aggressive in relation to Russia and exceptionally dangerous for the West itself.'³¹ In March, he repeated the point, but added that NATO as such did not present a military threat to the West.³² In his commitment to restoring Russia's influence in the CIS and his firm opposition to NATO enlargement, he was expressing views almost identical to those of Primakov, and rather more nationalistic than those of El'tsin at the time.

In the wider context of Russian politics, Berezovskii at this time was close to Chernomyrdin, but in August 1997 was openly critical of the 'young reformist' Deputy Prime Ministers, Chubais and Nemtsov, partly because of their alleged failure to provide finance for his projects in Chechnia. Meanwhile Potanin's *Komsomol'skaia pravda* attacked Berezovskii and claimed that the Secretary of the Security Council, Ivan Rybkin, was Berezovskii's tool.³³ The real divisions seem to have concerned the privatization of the telecommunications company Sviazinvest, and the consequent rivalry between the oligarchs. Berezovskii's control of ORT, Russian Public Television (the former Soviet Central Television), used in 1996 to such effect to promote El'tsin, now was the forum for regular public attacks on Chubais. El'tsin claims in his memoirs (ghost-written by Valentin Iumashev) that he concluded then that the oligarchs had to be curbed: '...the time had come when the oligarchs' influence upon politics, the government and society was harmful to the country... our greatest threat came from the people with big money ...'³⁴ In November 1997, under pressure from Chubais and Nemtsov, El'tsin sacked Berezovskii from the Security Council.³⁵

El'tsin says of Berezovskii: 'I never liked him, but I always tried to keep him on my team.'³⁶ This might help to explain why Berezovskii was appointed Executive Secretary of the CIS in April 1998. El'tsin says in his memoirs, however, that he was initially against Berezovskii's appointment, which was effectively forced on him by all the other CIS presidents. The oligarch had lobbied them all for support.³⁷ In December 1997, Berezovskii had again criticised Russian policy towards the CIS and warned of the urgent need for CIS integration. The existing presidents, he said, were

³⁰ Boris Berezovskii, 'Ia bol'she ne zanimaius' kommersiei', *Moskovskie novosti*, 19 November 1996, in Boris Berezovskii, *Iskusstvo nevozmozhnogo*, ed. Iurii Fel'shtinskii, 3 vols, Moscow: Izd. Nezavisimaia gazeta, 2004, vol. 1, 622-3.

³¹ Boris Berezovskii, 'Litsom k litsu. Vtoroi geopoliticheskii vybor Zapada v XX veke', *Nezavisimaia gazeta*, 19 February 1997, in Berezovskii, *Iskusstvo*, vol. 2, 10.

³² Dmitrii Pogorzhel'skii, 'Boris Berezovskii ne vidit voennoi ugrozoi so storonoi NATO', *Segodnia*, 20 March 1997.

³³ *RFE/RL Newslines*, 21 August 1997.

³⁴ Boris Yeltsin, *Midnight Diaries*, London: Phoenix, 2001, p. 94.

³⁵ *Ibid.*, pp. 94-9.

³⁶ *Ibid.*, p. 98.

³⁷ *Ibid.*, pp. 246-7.

‘genetically linked’ with Russia, but the forthcoming generation of leaders would not share this orientation. It was therefore necessary to develop integration before it was too late. He particularly praised the Belarusian dictator Aliaksandr Lukashenka, Russia’s partner in the Russo-Belarusian Union, for avoiding the social costs of economic transformation associated with the young reformers in Russia.³⁸

As Executive Secretary, Berezovskii sought to introduce a programme to reform the CIS, on the basis of the priority of economics.³⁹ He repeatedly emphasized that Russia should not dictate the terms of integration to the other states. The main initial aim was to create a free trade zone covering the whole Commonwealth. He also advocated institutional changes, including the merger of the Executive Secretariat with the Interstate Economic Committee (MEK).⁴⁰ Primakov states that he helped Berezovskii to prepare this plan.⁴¹ The Executive Secretary organized a ‘Special Interstate Forum’ which met in Minsk in June and November 1998. Berezovskii maintained his interest in the conflicts in the Caucasus, evoking criticism from Foreign Minister Primakov for his intervention in the Georgia-Abkhazia conflict.⁴² By late 1998, Berezovskii was coming under sustained attack inside Russia. He had called for a ban on the Communist Party of the Russian Federation (CPRF), after the leadership had refused to condemn anti-Semitic statements by the Communist State Duma member Al’bert Makashov. On 2 December the State Duma asked the CIS Council of Heads of State to dismiss Berezovskii as Executive Secretary.⁴³ Primakov as Prime Minister by then was investigating corruption in El’tsin’s ‘Family’, while Berezovskii was seeking Primakov’s dismissal. The opposition of the Russian Prime Minister and the CIS Executive Secretary could only harm Russia’s international position. On 4 March 1999 El’tsin, in his capacity as Chairperson of the CIS Council of Heads of State, removed Berezovskii, officially for regular activities outside his powers and for non-fulfilment of El’tsin’s instructions.⁴⁴ Primakov says that he had nothing to do with this decision.⁴⁵ Klebnikov linked the dismissal with the Swiss investigation into corruption, revolving around Pavel Borodin, in the renovation of the Kremlin premises.⁴⁶ Among the other presidents, Shevardnadze, Heydar Aliev of Azerbaijan, Nursultan Nazarbaev of Kazakhstan and Petr Lucinschi of Moldova expressed different degrees of opposition and denied that El’tsin had the right to act unilaterally.⁴⁷ Nevertheless, the CIS summit on 2 April confirmed the decision, while

³⁸ Interfax, ‘Press-konferentsiia Borisa Berezovskogo’, 24 December 1997, in Berezovskii, *Iskusstvo*, vol. 1, 640-1.

³⁹ See, e.g., ‘Prezident Azerbaidzhana Geidar Aliev prinial ispolnitel’nogo sekretaria SNG Borisa Berezovskogo’, *Bakinskii rabochii*, 23 June 1998, in Berezovskii, *Iskusstvo*, vol. 1, 691; and more generally, pp. 655-775 of this volume.

⁴⁰ Boris Berezovskii, ‘SNG: Ot razvala k sotrudnichestvu. Kakoe Sodruzhestvo nam nuzhno i real’no?’, *Nezavisimaia gazeta*, 13 November 1998, in Berezovskii, *Iskusstvo*, vol. 1, 709-10.

⁴¹ Primakov, *Russian Crossroads*, p. 307.

⁴² ‘Informatsionnaia programma “Itogi. Nochnoi razgovor”’, interview with Evgenii Kiselev, NTV, 8 June 1998, in Berezovskii, *Iskusstvo*, vol. 1, 674-5; Primakov, *Russian Crossroads*, p. 307.

⁴³ ‘Vchera v Gosdume’, *Sankt-Peterburgskie vedomosti*, 3 December 1998, in Berezovskii, *Iskusstvo*, vol. 1, 767.

⁴⁴ RIA-Novosti, ‘Boris El’tsin prinial reshenie ob osvobozhdenii Borisa Berezovskogo ot obiazannostei ispolnitel’nogo sekretaria SNG ...’, in Berezovskii, *Iskusstvo*, vol. 1, 790.

⁴⁵ Primakov, *Russian Crossroads*, p. 307.

⁴⁶ Klebnikov, *Godfather*, p. 289.

⁴⁷ Berezovskii, *Iskusstvo*, vol. 1, 794-9.

nevertheless proceeding to begin the implementation of Berezovskii's reforms of the structure.⁴⁸

Berezovskii's other major contribution to the making of foreign policy lay in his role as a media magnate. His newspapers did not follow a uniform position: *Nezavisimaia gazeta* took a nationalistic line, critical of NATO and the IMF and vehemently against the NATO attacks on Yugoslavia in 1999. *Kommersant* favoured a more conciliatory approach to the West.⁴⁹ His television station, ORT, while supportive of El'tsin allowed lively debate in discussion programmes. Gusinskii's media generally held a liberal viewpoint, more independent of the Kremlin than Berezovskii. It was on Chechnia that Gusinskii's NTV was most openly critical, in both the first and second wars. *Izvestiia*, in which Potanin and Lukoil had stakes, also took a generally pro-Western orientation.

The dual role of the energy companies in foreign policy has been mentioned. In the 1990s they pursued their own foreign policy: Lukoil's refusal in 1994 to cooperate with the MFA's policy in the dispute with Azerbaijan over how to divide Caspian resources is well known. Lukoil's position would not have been sustainable without support from Prime Minister Chernomyrdin. At the same time, the energy companies were also instruments of the state.⁵⁰ Gazprom in particular had to supply the former Soviet republics (as well as the home market) below world prices, and sometimes without being paid in full; in return, however, it was protected from the efforts of the young reformers to break it up, or to make it pay substantial amounts in tax. Occasionally Gazprom was allowed to cut off supplies to post-Soviet states owing it money. This, however, seemed to happen only when the Russian state needed to put pressure on the country concerned. In 1993 Gazprom cut gas supplies to Ukraine, using the argument of non-payment, prior to Russo-Ukrainian negotiations over nuclear weapons and the Black Sea Fleet. In 1995 Gazprom increased prices to Ukraine, seeking to entice it to join the CIS Customs Union. In 1998 Gazprom threatened to cut supplies to Moldova, prior to negotiations over the Russian military presence in Transdnistria.⁵¹ Oil was a weapon too: Russia cut off oil supplies to Moldova in July 1993, days before a parliamentary vote on economic union with the CIS.⁵²

Putin's attack on the oligarchs and the foreign policy implications

One week before the March 2000 presidential election, Putin denounced the fusion of capital and power in the hands of the oligarchs and promised, 'Such a class of oligarchs will cease to exist'.⁵³ The subsequent moves against Gusinskii, Berezovskii and Khodorkovskii have been well documented, and few doubted that, despite the use

⁴⁸ Martha Brill Olcott, Anders Åslund and Sherman W. Garnett, *Getting it Wrong: Regional Co-operation and the Commonwealth of Independent States*, Washington, DC: Carnegie, 1999, pp. 27-8.

⁴⁹ See Dmitriy Gornostayev, 'Russian Mass Media and Foreign Policy', in Jakub M. Godzimirski (ed.), *New and Old Actors in Russian Foreign Policy*, Oslo: Norwegian Institute of International Affairs, 2000, pp. 197-204.

⁵⁰ Igor Khripunov and Mary M. Matthews, 'Russia's Oil and Gas Interest Group and its Foreign Policy Agenda', *Problems of Post-Communism*, 43, 3, May-June 1996, pp. 38-48.

⁵¹ Michael Fredholm, 'The Russian Energy Strategy and Energy Policy: Pipeline Diplomacy or Mutual Dependence?', Conflict Studies Research Centre, 05/41, September 2005, pp. 17-18.

⁵² Michael W. Miller, 'Moldova: A State-Nation. Identity under Post-Communism', *Slovo*, 7, 1, March 1994, p. 70.

⁵³ Peter Rutland, 'Putin and the Oligarchs', in Dale R. Herspring (ed.), *Putin's Russia: Past Imperfect, Future Uncertain*, Lanham, MD and Oxford: Rowman & Littlefield, 2003, p. 138.

of the supposedly politically independent legal system against them, Putin was behind the assault on their assets and power.⁵⁴ Gusinskii and Berezovskii were pursued because their media were critical of the regime; Berezovskii was forced to hand over ORT, and Gusinskii lost all his media empire, with Gazprom taking over NTV. The fact that Berezovskii had supported Putin prior to the 2000 election, while Gusinskii had supported the Fatherland - All Russia alliance headed by Primakov, made no difference to their final treatment. Both were in exile by the end of 2000.

In July 2000 Putin met 21 of the oligarchs and, although what emerged has been described as a 'pact' between the two sides, there is little evidence that Putin promised them anything. Most had by then come under state pressure, typically over tax assessments.⁵⁵ Putin did not instruct business leaders to stay out of politics - Abramovich was allowed to remain governor of Chukotka, where his oil company Sibneft had valuable interests - but to refrain from opposition. Following this meeting, most of the top oligarchs, including Khodorkovskii, Fridman, Potanin, Alekperov, Chubais and Deripaska, joined the Russian Union of Industrialists and Entrepreneurs (RSPP). This was previously an association of medium-size industrial managers and Red Directors, led by Arkadii Vol'skii, a former aide to Communist Party general secretaries Iurii Andropov and Mikhail Gorbachev. Henceforth the RSPP advised and lobbied the government on behalf of the oligarchs, on questions of economic and foreign policy.⁵⁶ Putin has addressed the RSPP annually.⁵⁷

Khodorkovskii, however, was not content to work through the RSPP. He defied Putin, funding Iabloko, the Union of Right Forces (SPS) and the CPRF, and building up a bloc of Yukos loyalists within the State Duma. His ally, Platon Lebedev, head of Menatep Bank, was arrested and imprisoned in July 2003, but Khodorkovskii ignored the signal. He was arrested in October 2003,⁵⁸ and two years later sentenced to nine years in prison. Putin was clearly using 'salami tactics' to chop away at the oligarchs' political power.

Following the arrest of Khodorkovskii, Yukos became the victim of huge crippling tax demands which led to its bankruptcy and the sale of its most productive asset, Yuganskneftegaz, to Rosneft, in which the state then took a controlling interest. In the light of these events, the reasons for what happened to Khodorkovskii and then to Yukos have been the subject of some debate.⁵⁹ Some have argued that Putin was not in full control; he is reported to have asked the prosecutor to exercise restraint, and in 2004 he said that there was no intention of making Yukos bankrupt. The suggestion is that the *siloviki*, the representatives or former representatives of the security services within the presidential administration, went further than Putin wished, in order to benefit themselves personally, by acquiring control of profitable assets for companies in which they had a supervisory interest. (Goldman noted that

⁵⁴ For example, *ibid.*, pp. 133-52; Lilia Shevtsova, *Putin's Russia*, Washington, DC: Carnegie, 2003; Hoffman, *Oligarchs*, pp. 474-89; Sakwa, *Putin*, pp. 143-55.

⁵⁵ William Tompson, 'Putting Yukos into Perspective', *Post-Soviet Affairs*, 21, 2, 2005, 168-71.

⁵⁶ Rutland, 'Putin and the Oligarchs', pp. 141, 150; Philip Hanson and Elizabeth Teague, 'Big Business and the State in Russia', *Europe-Asia Studies*, 57, 5, July 2005, pp. 658-65; Sergei Guriev and Andrei Rachinsky, 'The Role of Oligarchs in Russian Capitalism', *Journal of Economic Perspectives*, 19, 1 2005, 145-6.

⁵⁷ See most recently the collection of articles 'Putin Meets with Oligarchs, Calls for Change' in *The Current Digest of the Post-Soviet Press*, 59, 6, 7 March 2007, 5-6.

⁵⁸ On Khodorkovskii, see Vitaly Shlykov, 'The Anti-Oligarch Campaign and its Implications for Russia's Security', *Journal of Slavic Military Studies*, 17, 1, March 2004, pp. 111-28.

⁵⁹ Tompson, 'Putting Yukos into Perspective', 159-81; Hanson and Teague, 'Big Business', pp. 657-80, especially pp. 677-80.

the daughter of Igor Sechin, the *silovik* who is deputy head of the presidential administration and chairperson of Rosneft, married the son of Vladimir Ustinov, Procurator-General with overall control of the Yukos case.⁶⁰) It is clear that the authorities were not united. Liberal ministers expressed concern, while Aleksandr Voloshin, the head of the presidential administration, resigned, and in January 2004 Prime Minister Mikhail Kas'ianov, who had obliquely supported Khodorkovskii, was sacked. Voloshin and Kas'ianov were the highest political representatives of El'tsin's 'Family', and in bringing about their removal Putin was freeing himself from much of the personnel legacy he had received from El'tsin. It cannot be excluded that the absence of Voloshin and Kas'ianov swung the balance of opinion within the presidential administration against the continued existence of Yukos, influencing Putin to take a harder line against the company than he originally intended; but, as will be suggested below, the bankruptcy of Yukos facilitated the creation of a state-controlled oil extracting company, in line with his overall economic strategy. This tends to suggest that Putin was in control of events.

Even after this, divisions remained within the presidential administration, as was shown by the failure of the planned merger of Gazprom and Rosneft. The merger, which would have created a Leviathan of a corporation, was announced in November 2004 but abandoned in May 2005. The failure has been tentatively attributed to rivalry between Sechin at Rosneft and Dmitrii Medvedev, the new head of the presidential administration who had been appointed chairperson of the Gazprom board.⁶¹ The failure of the original plan does not necessarily imply a defeat for Putin, but rather a change in his tactics in relation to energy.

Undoubtedly Khodorkovskii's own ambition, his proven capacity to block legislation in the Duma, his open attack on Putin in the Kremlin for allowing corruption, and his plan to stand for President in 2008 all antagonized Putin. Reportedly, Putin in April 2003 asked Khodorkovskii to stop Yukos financing the opposition. Khodorkovskii replied that Yukos as such was not financing the opposition, but he and other Yukos shareholders were personally funding the Communists. Putin agreed that they had a right to do this.⁶² As a result, in the 2003 election campaign, the pro-Putin United Russia party could blacken the Communists as having received oligarchical funding. Khodorkovskii and Abramovich had planned to merge Yukos and Sibneft – a merger which was finalized after Khodorkovskii's arrest and reversed only several months later. While this merger seems to have had Kremlin approval, the regime was less happy about Khodorkovskii's plan to sell a major part of his holdings in the merged company to the American ExxonMobil or Chevron corporations. This would have reduced the capacity of the state to direct the firm and would have given Khodorkovskii a higher level of political freedom – although, as Fortescue points out, Putin at the time was enthusiastic about the creation of the joint venture TNK-BP between the Tyumen Oil Company and the British company BP.⁶³ The TNK-BP deal, however, was in the context of a still relatively healthy bilateral relationship between Russia and Britain, signed during Putin's state visit to London, and the oligarchs involved, Fridman and Vekselberg, were not challenging Putin.

⁶⁰ Marshall I. Goldman, 'Putin and the Oligarchs', *Foreign Affairs*, 83, 6, November-December 2004, 33-44, www.foreignaffairs.org.

⁶¹ Michael Fredholm, 'The Russian Energy Strategy', pp. 34-6.

⁶² Valerii Paniushkin, *Mikhail Khodorkovskii. Uznik tishiny*, Moscow: Sekret firmy, 2006, p. 186.

⁶³ Fortescue, *Russia's Oil Barons*, pp. 126, 141-2, and Shlykov, 'The Anti-Oligarch Campaign', p. 118.

Fortescue makes a strong case that a major motivation for the moves against Yukos was to get the oligarchs to pay tax, as well as more generally to put them in their place.⁶⁴ What seems still more convincing, however, is that Putin saw the nationalization of Yukos's oil assets as a major step towards extending state control over a strategic industry. In his thesis for the degree of candidate of sciences, an abstract of which was published as an article in 1999, Putin expressed the view that the state should play a central role in reviving the Russian economy through the creation of giant corporations. Such companies would not necessarily be owned by the state, but the state would implicitly need a high degree of control over them. These corporations would link resource extraction to manufacturing, and be capable of defeating international competition – national champions in particular strategic industries.⁶⁵ As Martha Brill Olcott argues, Putin's moves against Yukos make sense in the light of Putin's article.⁶⁶ Fortescue was not convinced by the nationalization argument, because it was Rosneft and not the state-controlled Gazprom which acquired Yuganskneftegaz;⁶⁷ but since the state increased its holding to gain a majority of Rosneft shares, his argument has lost force. Michael Fredholm attributes importance to the Energy Strategy of Russia, approved by the government in draft in May 2003, which dictated that pipeline decisions were a matter for the state-controlled pipeline company Transneft, and not for the privately-owned oil extraction companies.⁶⁸ Logically, there was no reason why the desire of a private company to build a pipeline should lead to the expropriation of that company; rather, the state could insist that the private company make suggestions to the state pipeline company about the future construction of pipelines, and then use them. Politically, however, Khodorkovskii's desire to build his own pipeline system marked him out as an enemy.

Under El'tsin, Gazprom had had a monopoly of gas pipelines while the state-owned company Transneft had a monopoly of oil pipelines. Yukos, Sibneft, TNK and Lukoil announced in autumn 2002 a plan to build a private pipeline from Western Siberia to Murmansk. This would have clear foreign policy implications, since from Murmansk it would be possible to put oil on tankers to supply the American market. Additionally, Yukos planned to extend a pipeline from Eastern Siberia to the Chinese city of Daqing, and had been negotiating with Chinese oil interests.⁶⁹ This move threatened to undermine Russian foreign policy interests in East Asia, which involved avoiding firm commitments on energy supply to either China or Japan, for the time being, in order to render them more amenable to good relations with Russia by playing them off against each other. In general, Putin seemed to favour building a pipeline first to the Pacific Ocean, near Nakhodka, from where Japan, Korea and other

⁶⁴ Fortescue, *Russia's Oil Barons*, pp. 121-48.

⁶⁵ V.V. Putin, 'Mineral'no-syrevye resursy v strategii razvitiia rossiiskoi ekonomiki', *Zapiski Gornogo instituta*, 144, 1, 1999. Harley Balzer, 'Vladimir Putin's Academic Writings and Russian Natural Resource Policy', *Problems of Post-Communism*, 55, 1, January-February 2006, 48-54; Harley Balzer, 'The Putin Thesis and Russian Energy Policy', *Post-Soviet Affairs*, 21, 3, 2005, 210-25; and Peter J. S. Duncan, 'Regime and Ideology in Putin's Russia', in Duncan (ed.), *Convergence and Divergence: Russia and Eastern Europe into the Twenty-First Century*, London: UCL SSEES, forthcoming.

⁶⁶ Martha Brill Olcott, 'The Energy Dimension in Russian Global Strategy: Vladimir Putin and the Geopolitics of Oil', The James A. Baker III Institute for Public Policy, Rice University, October 2004, p. 23.

⁶⁷ Fortescue, *Russia's Oil Barons*, p. 145.

⁶⁸ Fredholm, 'The Russian Energy Strategy', p. 13.

⁶⁹ Konstantin Simonov, *Russkaia nefi'. Poslednii peredel*, Moscow: Eksmo, Algoritm, 2005, pp. 60-64.

Asia-Pacific markets could be supplied, rather than tying the supply to the Chinese market alone.⁷⁰

The RSPP oligarchs were largely intimidated into silence after Khodorkovskii's arrest. Vol'skii, refusing in July 2004 to say who he thought was responsible for the case, admitted: 'I'm simply scared. I have six grandchildren and I want them to stay alive.'⁷¹ This was not the end of the oligarchs as such. The World Bank's 2004 Country Economic Memorandum for Russia reported that 22 private conglomerates controlled 42% of jobs and 39% of sales in Russian industry, more than the whole of rest of the private sector (domestic and foreign). This degree of concentration was higher than in any other country.⁷² In subsequent years, the number and wealth of the very rich increased. In February 2006, according to *Finans*, there were 50 dollar billionaires in Russia; a year later there were 61.⁷³ But the remaining oligarchs were dependent on the state. Abramovich, then the richest man in Russia, showed this dependence in one way when he sold Sibneft to Gazprom for \$13 billion in 2005. He could realize his wealth only by selling to a state-controlled company; and the move fitted in with the desire of both Putin and Gazprom itself that the company become a world leader in energy, not only in gas. Some analysts believe Abramovich could have received more if he had been able to sell his stake on the open market. Putin insisted that Abramovich continue as governor of Chukotka, in spite of Abramovich's expressed desire to resign.⁷⁴ Gazprom renamed Sibneft as Gazpromneft. All the oligarchs had to proclaim their loyalty to the state. Alekperov, president of Lukoil and one of those who has survived, showed the way when he declared his devotion in 2001:

the new ideology of Russia's oil men proposes that we, Russian oil men, do not only work for or even not so much work for profits, we work above all in order to build a contemporary highly developed economy, a great power, Russia, of which we are now proud and of which we want to be proud in the future.⁷⁵

Energy companies argue that it is in Russia's interests for them to acquire assets abroad, particularly energy infrastructure in the former Soviet republics and Eastern Europe. At the same time the MFA has paid more attention to energy diplomacy. Energy exports are the key dimension of Russia's relations with the EU. Putin himself has more than once emphasized the need for Russian diplomacy to support Russian business, on the basis that this will rebuild Russia's status as a great power.⁷⁶ Indeed, in 2003 the Ministry of Foreign Affairs signed agreements with the RSPP and with the Chamber of Commerce and Industry to promote Russian business as well as state

⁷⁰ Shoichi Itoh, 'The Pacific Pipeline at a Crossroads: Dream Project or Pipe Dream?', ERINA Report, Vol. 73, January 2007, pp. 43-62, www.erina.or.jp.

⁷¹ Hanson and Teague, 'Big Business', p. 664.

⁷² Sergei Guriev and Andrei Rachinsky, 'Russian Oligarchs: a Quantitative Assessment', *Beyond Transition*, 15, 1, October-November-December 2004, pp. 4-5. I am indebted to Tomasz Mickiewicz for this reference.

⁷³ 'Reiting milliarderov – 2006', *Finans*, 6, 13-19 February 2006, <http://finansmag.ru/25495> and

'Reiting rossiiskikh milliarderov – 2007', *Finans*, 6, 12-18 February 2007, <http://finansmag.ru/49030>

⁷⁴ Catherine Belton, 'Gazprom Scoops up Sibneft for \$13Bln', *Moscow Times*, 29 September 2005, in *Johnson's Russia List*, JRL 9258 #5, www.cdi.org/russia/johnson/9258-5.cfm; Jeremy Page, 'Chelsea's tycoon makes £5bn selling his oil firm to Russia', *The Times*, 29 September 2005.

⁷⁵ Mark A. Smith, 'Russian Business and Foreign Policy', Conflict Studies Research Centre, F82, May 2003, p. 2.

⁷⁶ On the 'economization' of foreign policy under Putin, see Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, London: Royal Institute of International Affairs/Blackwell, 2003, pp. 51-71.

interests abroad.⁷⁷ In the case of the war against Iraq in 2003, for example, it seems that the top priority of Russian diplomacy in the months before the war was to protect the interests of Lukoil after any American-led invasion, until it became clear that France and Germany would oppose American action.⁷⁸ The understanding under Putin is that business, and the oligarchs, must serve the state, and this is reinforced by the presence of representatives from the presidential administration on the boards of all the largest state or mixed enterprises.⁷⁹

In this context, the appointment of Chernomyrdin as Ambassador to Ukraine in 2001 can be seen not only as an attempt by Gazprom to promote its interests in that most important transit country, but mainly as an attempt by Putin to use economic interests to strengthen Russia's influence in the second largest former Soviet republic. Here Putin was perhaps (paradoxically) following Berezovskii's vision of economics being the basis of the coming together of the CIS. Robert Stowe has argued that all six sectors of Russian business have (to varying degrees) such an interest in integration within the FSU.⁸⁰ Chubais' call for a 'liberal empire' in September 2003⁸¹ and the attempts of his electricity giant Unified Energy Systems to expand into Central Asia and Georgia are moves in the same direction. First Deputy Prime Minister Sergei Ivanov in 2006 openly referred to Russia as an 'energy superpower', implying the potential to use energy resources for geopolitical needs.⁸²

One example of such pressure appears to be on Lithuania, in relation to the ownership of the Mažeikių nafta oil refinery. Attempting to stop the Lithuanian government from selling it to the American Williams firm, Transneft cut off supplies nine times between 1998 and 2000. Williams sold it to Yukos in 2001, but after Khodorkovskii's arrest Yukos sold it back to Lithuania. Since July 2006 Transneft has again suspended deliveries to the refinery, now for over a year, citing technical difficulties, but it seems that Russia is putting pressure on Lithuania to sell it to a Russian company, in order to strengthen Russia's political interests there.⁸³

What appears to be an exception to the general pattern of business serving the state, however, is the continued state backing for the project of the Ministry of Atomic Energy (Minatom) to build a nuclear reactor at Bushehr in Iran. It is difficult to disentangle conflicting interests here. There seems to be sufficient evidence that Iran is seeking to build nuclear weapons, despite denials from both Teheran and Moscow. Nevertheless Russia has defied American pressure on this issue since 1994, and announced plans to build a second reactor. It cannot be in Moscow's interests for Iran to develop a nuclear weapons capability, however much the two states are co-operating in other spheres. Speculatively, it seems that the economic interests of those at the top of Minatom, reportedly close to Putin, have been decisive in policy, at least

⁷⁷ Smith, 'Russian Business', p. 1.

⁷⁸ For a more thorough analysis, see Galia Golan, 'Russia and the Iraq War: Was Putin's Policy a Failure?' *Communist and Post-Communist Studies*, 37, 4, December 2004, 429-59.

⁷⁹ For a list of presidential representatives on the main energy, industrial, communications and media companies, see Fredholm, 'The Russian Energy Strategy', p. 10.

⁸⁰ Robert Stowe, 'Foreign Policy Preferences of the New Russian Business Elite', *Problems of Post-Communism*, 48, 3, May-June 2001, p. 57.

⁸¹ Sergei Alekhin, 'Anatolii Chubais: V Evrosoiuz i NATO Rossiia "ne pomestitsia"', *Rossiiskaia gazeta*, 30 September 2003.

⁸² Sergei Ivanov, 'Triada natsional'nykh tsennostei. Sergei Ivanov o suverennoi demokratii, sil'noi ekonomike i voennoi moshchi', *Izvestiia*, 13 July 2006, at <http://dlib.eastview.com/sources/article.jsp?id=9766511>

⁸³ Maria Lenn, 'Interview with HE Vygaudas Ušackus, Lithuanian Ambassador to the UK', 12 July 2007, and Vygaudas Ušackus, 'A Talk on Energy Security', 22 March 2006, *Tiltas: Journal of the British-Lithuanian Society*, 8, 1, July 2007, pp. 6-13.

until some decision-makers began to realize the adverse consequences for Russia of a nuclear-armed Iran.⁸⁴

Certain other specific consequences for Russian foreign policy of the decline of the oligarchs' influence can be identified. After Berezovskii applied for, and was given, political asylum in Britain, the MFA summoned HM Ambassador to make a strong protest. This response was sharper than had been the case in Soviet times when dissidents were given asylum in Britain. Another consequence of the oligarchs' decline was a gradual shift in Russian policy in the Israel-Palestine conflict. Some of the oligarchs had close links with Israel; Berezovskii and Gusinskii both had Israeli citizenship, although Berezovskii had to give his up when he worked at the Security Council. The loss of their influence was probably a factor in restoring Moscow's more traditional links with the Arabs.

An interesting case of the impact of business lobbying is the case of Russia's accession to the World Trade Organization (WTO). In 2000 Putin made clear his intention that Russia should join by 2003, supporting the wishes of the liberal reformers in the government. One effect of Russia's co-operation with the West in the 'war against terrorism' after 11 September 2001 was that in 2002 both the USA and the EU recognized Russia as a 'market economy'.⁸⁵ In April 2004 the EU negotiated a deal with Russia whereby it accepted that Russia qualified for WTO membership. Nevertheless, accession has been controversial within Russia. The RSPP supported accession, but many of its members favoured accession only if their interests could be accommodated. The key figure in the opposition has been Deripaska, owner not only of RusAl but also of the Gorky Automobile Factory (GAZ), which would be likely to face severe competition after WTO accession. In 2001, Deripaska was reported as being the oligarch with the most frequent access to Putin (apart from the government oligarchs, Chubais and Miller).⁸⁶ From about 2004, Putin appeared to become less interested in the WTO, as he became more openly in favour of state intervention in the economy and more critical of the West.⁸⁷ Deripaska regularly accompanies Putin on trips abroad, and in 2007, according to *Finans*, he overtook Abramovich as the richest man in Russia⁸⁸ – hardly possible, under present conditions, if his business activity did not meet Putin's approval. While opposition from other sectors such as agriculture have been important factors,⁸⁹ it seems plausible that Deripaska has had some influence on Putin's now lukewarm attitude to the WTO.

In the longer run, the major impact of the decline of the oligarchs on foreign policy may be indirect, through the effects on the media. Putin's desire for control over all the major television channels was an immediate factor in the moves against Gusinskii and Berezovskii. Commentators have linked this desire for media control

⁸⁴ On Russia's military relationship with Iran, see T. Bukkvoll, 'Arming the Ayatollahs: Economic Lobbies in Russia's Iran Policy', *Problems of Post-Communism*, 49, 6, Nov-Dec 2002, 29-41.

⁸⁵ Robert Cottrell, 'The Political Context of Russia's WTO accession', in Katinka Barysch, Robert Cottrell, Franco Frattini, Paul Hare, Pascal Lamy, Maxim Medvedkov and Yevgeny Yasin, *Russia and the WTO*, London: Centre for European Reform, 2002, pp. 47-61.

⁸⁶ Julie A. Corwin, 'Accessing Putin', *RFE/RL Russian Political Weekly*, 1, 30, 3 December 2001.

⁸⁷ Anders Åslund, 'Russia's WTO Accession', 21 November 2006, Peterson Institute for International Economics, www.iie.com/publications/papers/paper.cfm?ResearchID=686; 'Russia and WTO Accession', *Russian Analytical Digest*, No. 24, 3 July 2007, <http://www.res.ethz.ch/analysis/rad/details.cfm?lng=en&id=32675>.

⁸⁸ 'Reiting milliarderov – 2006', *Finans*, 6, 13-19 February 2006, <http://finansmag.ru/25495> and 'Reiting rossiiskikh milliarderov – 2007', *Finans*, 6, 12-18 February 2007, <http://finansmag.ru/49030>

⁸⁹ Stephen K. Wegren, 'Russian Agriculture and the WTO', *Problems of Post-Communism* 54, 4, July-August 2007, 46-59.

with the Information Security Doctrine, signed in September 2000.⁹⁰ The doctrine declared the need to ‘strengthen state media’, and specifically on foreign policy it spoke of the dangers of either foreign entities or internal political forces spreading ‘disinformation’ on Russia’s tactics and strategy.⁹¹ Gazprom-Media, on behalf of the Kremlin, extended its holding; it took over the independent and critical radio station *Ekho Moskvy*, and in 2005 Potanin sold it the influential newspaper *Izvestiia*.⁹² The state now has, in practice, a monopoly on the supply of news information to most citizens of Russia. Journalists now practice self-censorship and there is very little deviation from the official line. Russians are becoming less aware of international issues than they were under El’tsin. So long as there was competition in the supply of information, it was much harder for the state to impose its view, but that point has now passed. Thus Western countries can be presented as seeking aggressively to implement ‘coloured revolutions’ in the CIS and Russia itself. Russian viewers are told that the former KGB agent, Aleksandr Litvinenko, was poisoned in London on the instructions of Boris Berezovskii, and the evidence linking the Russian security services with Litvinenko’s death is suppressed. If at some time the authorities were to engage in aggressive action against another state, it would be much easier to win the support of public opinion than it was when the oligarchs controlled some of the channels.

In the context of domestic politics, Russian commentators have warned about the supposed possibility of an ‘oligarchs’ revenge’. Sergei Markov, director of the Institute for Political Research, spoke in June 2006 of the ‘party of oligarchical revenge’, headed by Berezovskii and Leonid Nevzlin (of Menatep Bank, formerly associated with Khodorkovskii, and now exiled in Israel). They would try to take advantage of divisions within the Kremlin over the Putin succession.⁹³ In order to keep the oligarchs under control during the election period, in September 2007 the Federal Tax Service revealed its intention to create a unit to audit the richest taxpayers.⁹⁴

Gazprom and Russian foreign policy under Putin

So far, the question as to whether Gazprom and other energy companies act abroad on their own initiative or as agents of the Russian State has been raised but not addressed. Erik Scott argues that this is the wrong question. ‘The blending of public and private interests in Russia does not make it fruitful to ask whether the state drives business interests, or the other way around. Instead, it is more useful to look at the interdependent relationship between the state and business in determining and

⁹⁰ Laura Belin, ‘Politics and the Mass Media under Putin’, in Cameron Ross (ed.), *Russian Politics under Putin*, Manchester: Manchester University Press, 2004, pp. 133-52; Andrei Richter, ‘Media Regulation: Foundation Laid for Free Speech’, in Kaarle Nordenstreng, Elena Vartanova and Yassen Zassoursky (eds), *Russian Media Challenge*, Helsinki: Kikimora, 2001, pp. 122-6.

⁹¹ ‘Doktrina informatsionnoi bezopasnosti Rossiiskoi Federatsii’, in A.G. Arbatov & E.L. Chernikov (comps), *Pravovye akty Rossiiskoi Federatsii v sfere voenno-grazhdanskikh otnoshenii. Sbornik dokumentov*, Moscow: Tsentr po demokraticheskomu kontroliu nad vooruzhennymi silami – Zheneva and Fond razvitiia politicheskogo tsentriзма – Moskva, 2002, pp. 107, 120-1.

⁹² ‘Energy firm to buy daily *Izvestia*’, *Guardian*, 3 June 2005.

⁹³ ‘Inogda oni vozvrashchaiutsia’, *Lenta.ru. Kommentarii*, 8 June 2006, www.lenta.ru/articles/2006/06/07/oligarchs/ Printed.htm. Eugene Nivorozhkin kindly sent me this.

⁹⁴ RC [Robert Coalson], ‘Tax Service to Turn its Attention to the Oligarchs’, *RFE/RL Newslines*, 11, 179, Part I, 26 September 2007.

implementing policy'.⁹⁵ I would argue the opposite. While undoubtedly in many cases business and the state share a common interest in enlarging Russia's economic and political influence, the question of motivation is essential to understanding and predicting policy. If business drives the state, then one can expect the profit motive to dominate, and for decisions to be taken on commercial criteria. If, however, business is expected to serve the state, then other geopolitical and geo-economic motives will come into play. Among those who consider the question important, however, there is very little agreement. For some years the Baltic States, Poland and Georgia have accused Russia of using energy supply as a weapon. Since about 2005 they have been joined by some leading American politicians, EU Commissioners and leaders of some West European states, and, in less likely company, President Lukashenka of Belarus. On the other side, Gazprom itself and its Western business partners insist that its dealings are on a commercial basis, as did the then German Chancellor, Gerhard Schröder, before resigning and taking up a salaried position with Gazprom.

The fact that the majority of the shares in Gazprom and Rosneft are now held by the Russian Federation might suggest that these companies will automatically follow the dictates of the political leadership. Nevertheless, we know enough about Russian politics to grasp that there are conflicts between ministries, and between the government and the presidential administration, and within the presidential administration, and that these conflicts are likely to grow in periods of political uncertainty such as a succession struggle. Even in Soviet times, when the Politburo was supposed to lead all Party and state bodies, conflicts would arise between different organs. It is entirely likely, therefore, that huge companies like Gazprom and Rosneft will develop their own corporate identities and interests which will not always be identical with those of the Russian president, and sometimes be able to pursue these interests. They may be sometimes more willing and able to follow commercial criteria than their political masters would prefer.

Among analysts there is no agreement as to whether Russian business has more influence on policy within the former Soviet Union or outside it. Mark Smith sees a possible strong but not determining influence on Russian policy for Russian energy companies within the old Soviet borders, but less influence in policy outside them.⁹⁶ Rosaria Puglisi sees the energy companies as being successful in framing Russian government policy in accordance with their interests in the CIS and Eastern Europe, even claiming that Gazprom was 'probably instrumental in fostering the Russia-Belarus union'. She also points out that Minatom was able to make sales to Iran that disregarded the interests of the foreign ministry, while the defence industry sold wares to China despite concerns in the defence ministry.⁹⁷ In contrast, Robert Ortung considers that Gazprom, Transneft and Unified Electrical Systems act like 'tools' of the state in the CIS.⁹⁸ Heiko Pleines finds that Gazprom and the Russian oil companies have succeeded in getting Russian diplomacy to support their aims in negotiations with the EU.⁹⁹

⁹⁵ Erik R. Scott, 'Uncharted Territory: Russian Business Activity in Abkhazia and South Ossetia', in Wenger *et al.*, *Russian Business Power*, p. 220.

⁹⁶ Smith, 'Russian Business', pp. 7-8.

⁹⁷ Rosaria Puglisi, 'The "normalisation" of Russian Foreign Policy: The Role of Pragmatic Nationalism and Big Business', in Graeme P. Herd and Jennifer D.P. Moroney (eds), *Security Dynamics in the Former Soviet Bloc*, London: RoutledgeCurzon, 2003, pp. 75-78 (quotation, p. 77).

⁹⁸ Robert W. Ortung, 'The Role of Business in Russian Foreign and Security Relations', in Wenger *et al.*, *Russian Business Power*, p. 31.

⁹⁹ Heiko Pleines, 'Russian Energy Companies and the Enlarged European Union', in Wenger *et al.*, *Russian Business Power*, pp. 56-63.

In the 1990s, the energy companies seem often to have pursued their own policy, as for example when Lukoil invested in Azerbaijan against the wishes of the Russian foreign ministry. While Chernomyrdin was Prime Minister, as he was for most of the period, the Russian government was defending the interests of the management of Gazprom. In 2001 Putin tried to reverse the situation, replacing Viakhirev with Miller as director and Chernomyrdin with Voloshin, and later Dmitrii Medvedev, as chair of the board. For the previous few years, Gazprom had virtually withdrawn from trade with CIS countries in favour of Itera, a US-registered company which was set up in co-operation with Gazprom executives. The aim of establishing Itera was to enable these managers to personally profit from the trade.¹⁰⁰ The new Gazprom leadership regained the CIS trade from Itera. Within the CIS, gas is sold on the basis of agreed prices in long-term agreements, which are signed by presidents or prime ministers. The gas is delivered through pipelines, many of which date from the Soviet era, and all of which until recently passed through Russia. This gave Russia a hold on all inter-CIS gas trade, including exports from Central Asia to Ukraine. At the same time Russian gas exports to Western Europe have had to travel through Ukraine or Belarus, enabling these transit countries to unilaterally seize gas intended for Western Europe if Russia reduces supply to them. In this context Russia 'has regarded itself as suffering from transit dependence'.¹⁰¹ To counteract this, the Russian state and Gazprom have wanted to take control over the pipelines throughout the former Soviet Union, to prevent the transit countries from diverting gas for their own use and also to bind the consumers more closely to Gazprom as supplier, preventing diversification of gas sourcing. In Moldova, Armenia, the Baltic States and most of the former Soviet-bloc countries of Eastern Europe, and after much effort in Belarus, Gazprom has succeeded in gaining a share in the ownership of local gas companies.¹⁰² In June 2006 the identification of Gazprom with the Russian state in this respect was entrenched by an overwhelming vote in the State Duma giving Gazprom (and its wholly-owned subsidiaries) an export monopoly of Russian gas.¹⁰³ The Moscow newspaper *Kommersant*”, now owned by the steel oligarch Usmanov, claimed that in 2006, the formula 'What's good for Gazprom is good for Russia' had triumphed. The Kremlin considered

that Gazprom is not simply a resource for providing more than 10% of budget revenues and ensuring socially acceptable prices for natural gas inside the country, but, first and foremost, a geopolitical weapon guaranteeing Russian power in the world arena.

Consequently, the bigger Gazprom is and the more export contracts it has, the greater the power of Russia and its rulers.

The article stated that increasing the prices paid for gas by Russia's neighbours was good for Gazprom, but weakened Russia's influence by making these countries less friendly to Russia.¹⁰⁴

¹⁰⁰ On Itera and its role in CIS gas trade, see Jonathan P. Stern, *The Future of Russian Gas and Gazprom*, Oxford: Oxford University Press for the Oxford Institute of Energy Studies, 2005, pp. 22-25 and 68-72.

¹⁰¹ Fredholm, 'The Russian Energy Strategy', p. 14.

¹⁰² For lists of Gazprom's holdings outside Russia, see Stern, *The Future*, pp. 106, 113; Pleines, 'Russian Energy Companies', p. 54.

¹⁰³ PM [Patrick Moore], 'Duma Moves to Reaffirm Gazprom's Monopoly', *RFE/RL Newswire*, 10, 110, 16 June 2006, Part I.

¹⁰⁴ 'Gazpromonomics', *Kommersant*”, 25 December 2006, in *The Current Digest of the Post-Soviet Press*, 59, 1-2, 31 January 2007, pp. 7-8.

Gazprom's relations with Ukraine and Belarus under Putin have sometimes been characterised by a high degree of acrimony. Putin favoured moving towards selling oil and gas to CIS states at prices approaching the levels paid by West European customers, unless these states were to be friendly to Russia in foreign policy and allowed Russian ownership or part ownership of pipelines on their territory. This moved from El'tsin's policy of subsidizing all the CIS states, and even the Baltic States, in order to keep them in some way dependent on Russian generosity and amenable to projects of integration with Russia. For Putin, CIS integration would go ahead only where it was profitable for Russia.

Ukraine, Belarus and Moldova receive nearly all of their gas from Russia. Repeated accusations of large-scale corruption and theft of gas by Ukraine dogged Russia's gas relations with Ukraine in the years before 2001, together with debt for non-payments for gas supplied legally. These culminated in Gazprom proposing to build a pipeline through Belarus to bypass Ukraine. Russia's political relations with Ukrainian President Leonid Kuchma were not good, as he sought close ties with NATO and the EU. Following accusations of Kuchma's involvement in the death of a journalist, Georgii Gongadze, Kuchma was cold-shouldered by the West and was forced to turn to Putin for support. This led to a series of complicated agreements beginning in 2001 whereby Gazprom would supply gas from Turkmenistan at low prices to Ukraine. A Swiss-registered company RosUkrEnergo, owned by the Russian state-controlled Gazprombank and the Ukrainian company Centragas, played an intermediary role. Following the victory of Viktor Iushchenko in the 'Orange Revolution' in 2004, the new president offered to move towards paying market prices for gas.¹⁰⁵ This reflected the desire of the new Western-oriented administration to demonstrate its desire to move from dependence on Russia. Nevertheless, for financial reasons, it was welcomed by Gazprom, and the Russian Duma passed a government-sponsored resolution asking that the CIS countries and the Baltic States be required to pay prices similar to those paid by West European countries. Through 2005, however, world energy prices rose. Turkmenistan asked for higher prices from Ukraine, Ukraine asked for time to move towards the new higher prices and Gazprom bought up the gas Turkmenistan had intended to supply to Ukraine. When Gazprom and Ukraine could not agree on prices for supplies in 2006, despite the fact that they had been negotiating for months, Gazprom cut off gas supplies to Ukraine on 1 January, when the existing contract ended. Supplies were resumed three days later after a new, opaque deal was signed, involving Ukrainian companies, Gazprom, Turkmenistan and again RosUkrEnergo.¹⁰⁶

The cut-off was widely seen in the West as Russia punishing Ukraine for seeking to move away from Russia's influence; and to influence the then forthcoming parliamentary elections, by allowing the more Russia-oriented Party of the Regions, led by Viktor Ianukovych whom Iushchenko had defeated in the Orange Revolution, to claim that it would be able to secure a better deal for Ukraine from Russia than the Orange parties. Jonathan Stern has pointed out that Gazprom was demanding that all CIS countries, regardless of their relations with Russia, pay higher prices, apart from Belarus, although not as high as the prices Ukraine was being asked for. Gazprom justified the Belarus exception on the grounds of the Russia-Belarus Union, and the

¹⁰⁵ For details of these supply agreements, see Stern, *The Future*, pp. 86-96. See also Roman Kupchinsky, 'Russia/Ukraine: Pipeline Conflict Resurfaces', Radio Free Europe/Radio Liberty, 28 June 2007, www.rferl.org.

¹⁰⁶ Jonathan Stern, 'The Russian-Ukrainian Gas Crisis of January 2006', Oxford Institute for Energy Studies, 16 January 2006, pp. 3-10, www.oxfordenergy.org.

fact that Gazprom had a stake in the Belarusian pipeline network. Moreover, Russia was making no political demands on Ukraine. Stern notes that Putin offered a 3-month postponement of the price increases, which would have delayed them until after the election - suggesting that Russia was not in fact trying to influence the election.¹⁰⁷ Indeed, it was the industry in Russia-oriented Eastern Ukraine which suffered most from the lack of gas.

If the motives for the interruption of supply to Ukraine were purely commercial, however, it seems that Gazprom overlooked a key aspect. During the period of the cut-off, some West European countries experienced severe reductions in supplies. This could probably only be accounted for by Ukrainian consumers cutting into the gas intended for Western Europe. It raised the profile in Western Europe of the Russian actions, and caused many policy-makers to question how reliable Russia was as a source of energy, and particularly of gas. Thus in the longer run, Gazprom's actions may have encouraged European consuming states to diversify their sources of energy, both from Russia and from gas in general.¹⁰⁸ Since decisions about supply interruptions could only have been sanctioned at high levels in the Kremlin (presumably Putin himself), the indications are that the desire to teach the Ukrainians a lesson may have overridden the desire to retain the image of Russia as a stable supplier to Western consumers. In other words, it appears that the long-term commercial interests of Gazprom were subordinated to the political wishes of the Kremlin. If the aim was to help Ianukovych in the elections, then it was achieved to some extent; while the March 2006 elections led to months of instability, in August Iushchenko was forced to appoint Ianukovych Prime Minister.

The price paid by Ukraine for Turkmenian gas was increased in early 2007, but already in April 2007 Gazprom was linking future price rises to economic co-operation. Valerii Golubev, deputy chairperson of its management committee, and a former KGB officer and colleague of Putin and Miller in Sobchak's office, said: "If politicians make a decision to establish closer economic ties between our countries, this will guarantee lower gas prices. However, if the politicians decide to separate these ties, then the price of gas for Ukraine will be the same as for Germany."¹⁰⁹ This statement could be interpreted both as an attempt to persuade Ukraine to sell Gazprom a share in the pipelines crossing the country, and as an attempt to persuade Ukrainians to support Ianukovich's party in the parliamentary elections of 30 September.¹¹⁰ The first would reflect Gazprom's commercial interests, while the second would more directly reflect the interests of the state. What seemed to show a strong political motive, however, emerged following the victory of the Orange parties in the elections. Although Ianukovych's party won the most votes, Iushchenko's Our Ukraine and Iuliia Tymoshenko's Bloc between them won a majority of seats. Just two days after the elections, Gazprom threatened to cut supplies to Ukraine unless it settled debts of \$1.3 billion.¹¹¹ French President Nicolas Sarkozy claimed that Russia was using its energy resources to force Europe to comply with its wishes.¹¹² Within days, however,

¹⁰⁷ Ibid., pp. 10-13.

¹⁰⁸ As advocated by Andreas Heinrich, 'Gazprom – A Reliable Partner for Europe's Energy Supply?', *Russian Analytical Digest*, No. 1, 6 June 2006, pp. 2-6, <http://www.res.ethz.ch/analysis/rad/details.cfm?lng=en&id=17946>

¹⁰⁹ Roman Kupchinsky, 'Russia: Gazprom Hones its Strategy on Ukraine', Radio Free Europe/Radio Liberty, 30 May 2007, www.rferl.org.

¹¹⁰ Ibid.

¹¹¹ Luke Harding, 'Russia issues gas ultimatum to Ukraine', *Guardian*, 3 October 2007.

¹¹² PM [Patrick Moore], 'France tells Russia to stop "complicating" matters', *RFE/RL Newslines*, 11, 185, 5 October 2007, Part I.

agreement was reached on paying the debt, even though it had mysteriously risen to over \$2 billion. It was reported that Gazprom had become concerned about the capacity of the Ukrainian intermediaries to meet their payments, rather than having a special political motive, although the timing might well have been affected by the election.¹¹³

In relation to Belarus, a consistent aim of Gazprom has been to acquire control of the company Beltranshaz which owns the pipeline taking gas across Belarus to Europe. Already in 1993 a deal was signed to lease the pipelines to Gazprom, but this was rejected by the Belarusian parliament. From 1994 gas subsidies were explicitly linked to political issues, such as the free stationing of Russian troops in Belarus. In the late 1990s, gas supply seems to have been relatively depoliticized; Belarus received cheap gas while negotiations proceeded over the 'Union of Sovereign Republics' of Russia and Belarus and the Russo-Belarus Union. In 1999, Belarus achieved a price reduction, apparently by going over the head of Gazprom to the Russian government, and citing the fraternal relationship. Lukashenka's hand was strengthened by the opening of the Belarus section of the Yamal gas pipeline, taking gas to Europe and avoiding the need for transit through Ukraine. It was probably the desire to further reduce dependence on Ukrainian transit by creating a bypass through Belarus which led Gazprom to continue the supply of gas at low prices, despite Belarus owing a debt to Gazprom, although in exchange Beltranshaz charged Gazprom low transit tariffs. These subsidies came despite Putin's desire to phase them out, and despite his increasing frustration with Lukashenka over the slow pace of progress on the Russo-Belarus Union. (At this time independent Russian companies, including Itera, were also involved in gas sales to Belarus.) In April 2002 Belarus promised a share in Beltranshaz to Gazprom, in exchange for receiving gas at Russian domestic prices. However, with Belarus failing to abide by the agreement on Beltranshaz, its debts mounting, and its consumption of gas exceeding the agreed level, in November 2002 Gazprom halved its deliveries to the fraternal republic. One likely reason for the harder line was the improved state of relations with Kuchma's Ukraine, reducing the pressure for a bypass through Belarus. Again, Belarus promised to allow Gazprom into Beltranshaz, and again, supplies were resumed. Again in January and February 2004 Gazprom twice briefly cut off supplies because of the failure to agree over either prices or over Beltranshaz, with Lukashenka accusing the Russian side of 'terrorism at the highest level' and Belarus taking gas destined for Europe. Agreement was achieved in the summer with a loan from Russia and an agreement for a Western firm to value Beltranshaz.¹¹⁴

Agreements were made without such drama for 2005 and 2006, probably because after the Orange Revolution in Ukraine, good relations with Belarus became more important to Russia. In the negotiations over the contract to begin in January 2007, however, Gazprom announced it wished to apply European prices for all its customers. Moreover, since Russian domestic customers would have to pay European prices by 2011, it would be impossible for Belarus to pay any less. Gazprom again threatened to stop supplies to Belarus if an agreement was not signed. At the last minute Belarus avoided the cut-off, by agreeing a package on pricing, transit tariffs

¹¹³ Roman Kupchinsky, 'The Mysterious Ukrainian Gas Debt to Gazprom', *RFE/RL Newslines*, 11, 189, 12 October 2007, Part I.

¹¹⁴ This draws from Chloë Bruce, 'Fraternal Friction or Fraternal Fiction? The Gas Factor in Russian-Belarusian Relations', Oxford Institute for Energy Studies, NG 8, March 2005, (Lukashenka quotation, p. 17) www.oxfordenergy.org.

and the transfer of 50% of Beltransgaz to Gazprom.¹¹⁵ Finally Gazprom had achieved its aim. But having kept its gas supply running, Belarus refused to pay a new duty which Russia had imposed on its oil deliveries, and cut off oil supplies to Europe on the *Druzhba* pipeline. Transneft responded by shutting off all oil supplies to Belarus. A financial compromise was reached after a week, but Russia's relations with Belarus were badly damaged.¹¹⁶ In August 2007, faced with the failure of Belarus to meet the agreed higher payments, Gazprom threatened to reduce supplies to the country,¹¹⁷ but on this occasion a compromise was reached without such action.

In both Ukraine and Belarus, Gazprom under Putin has pursued a commercial agenda of using the threat of supply interruptions to enforce price increases. At the same time Gazprom has pursued Russian political interests: lower prices for Belarus owing to the Russo-Belarus Union, while that seemed a fruitful enterprise; punishment for Ukraine when it chose pro-Western governments. A similar pattern emerges in Russian policy towards Moldova and the *de facto* state of Transnistria. Gazprom rewarded Moldova when it elected a pro-Russian government, but took a harder line when Moldova changed its policy.¹¹⁸ While Gazprom's commercial and Russia's political interests were entwined, undoubtedly Gazprom was following a political agenda at times.

Within the CIS, Gazprom is involved not only in sales but also in securing access to supplies. Just as Azerbaijan and Georgia sought a way of avoiding dependence on Russian oil pipelines by encouraging the construction of the Baku-Tbilisi-Ceyhan pipeline, taking oil out to the Turkish Mediterranean, so the Central Asian states sought to diversify gas transport out of the old Soviet gas pipeline system. America advocated the construction of a gas pipeline under the Caspian Sea to take Turkmenian and Kazakh gas to Baku and then west via Turkey. In May 2007, however, at a summit in Turkmenbashi, Putin and the presidents of Turkmenistan and Kazakhstan agreed to build a new gas pipeline along the Caspian Sea coast to take Kazakh and Turkmenian gas to Russia. Uzbekistan was also part of the project.¹¹⁹ If this is implemented, it will not only increase Gazprom's sales capacity but also tie the Central Asian states more closely to Russia. While the interests of Gazprom and the Russian state seem identical here, it is probably the improvement in the political relations between Russia and the Central Asian states, enhanced by common fears of 'coloured revolutions', which has created the situation from which Gazprom can benefit. Co-operation with other major world gas producers such as Iran and Algeria and the establishment of a 'gas OPEC', if it could be achieved, would strengthen Gazprom and Russia further.

Gazprom's interests have had important effects on Russian foreign policy outside the CIS, in Europe. In order to overcome 'transit dependence' on Ukraine, Belarus and Poland, Gazprom advocated the building of the Nord Stream Gas pipeline under the Baltic Sea, from Vyborg in Leningrad *oblast'* to Greifswald in Germany. From Germany the pipeline may be extended in the future to other EU members. The

¹¹⁵ Katja Yafimova and Jonathan Stern, 'The 2007 Russia-Belarus Gas Agreement', *Oxford Energy Comment*, January 2007, www.oxfordenergy.org.

¹¹⁶ See the collections of articles in *The Current Digest of the Post-Soviet Press*, 59, 1-2, 31 January and 7 February, 2007, 1-7, and 59, 3, 14 February 2007, 1-5.

¹¹⁷ Jan Maksymiuk, 'Belarus: Gas War with Russia Reaches New Level', Radio Free Europe/Radio Liberty, 2 August 2007, www.rferl.org.

¹¹⁸ Chloë Bruce, 'Power Resources: The Political Agenda in Russo-Moldovan Gas Relations', *Problems of Post-Communism*, 54, 3, May-June 2007, 29-47.

¹¹⁹ Jean-Christophe Peuch, 'Russia: Energy Summit Gives Putin New Trump Card', Radio Free Europe/Radio Liberty, 16 May 2007, www.rferl.org.

agreement that Gazprom and the German companies E.ON and BASF would build the pipeline was signed in September 2005 by Putin and Schröder.¹²⁰ The projected cost of at least \$4 billion is considered justified by the consortium, because it means that transit fees will not have to be paid to intermediate countries and security of supply is increased. Reaction from the transit countries has been hostile. Those which are members of the EU, Poland and the Baltic States, have accused Germany of breaking European solidarity by signing the agreement unilaterally; Polish politicians have spoken of a new Molotov-Ribbentrop Pact. In Germany itself, Schröder's resignation and subsequent appointment to chair the consortium's supervisory board led to criticism and contributed to the victory of the Christian Democrats in the subsequent election, but the new German coalition government showed no sign of reneging on the deal. Instead, the EU has begun to try to show more unity in its energy dealings with Russia. It has put more pressure on Russia to ratify the Energy Charter Treaty, which it signed in 1994. This would require Russia to force Gazprom to raise domestic gas prices to market levels, which in fact it now wants to do anyway; and to open up the use of the pipelines it owns to other companies and countries. The latter would mean, among other things, that Gazprom would lose control over the export of Central Asian gas to Europe. It is an indication of Gazprom's influence inside Russia that Russian policy has consistently followed Gazprom's interest in this respect, even though in the past other Russian gas producers favoured liberalization of control of the pipelines.¹²¹ In the context of Putin's ideas, the continued refusal to ratify might be better explained in terms of the unwillingness of the Russian state to give up control over strategic assets.

This is not to deny that Gazprom has a privileged position, even in relation to other state-controlled entities in Russia. The decision to allow Gazprom rather than the state controlled oil company Rosneft to acquire control of Sibneft from Abramovich reflects this. On the other hand, pressure in 2006-7 on Shell to give up part of its interests in the Sakhalin-2 gas project to Gazprom, and on TNK-BP to cede control of the Kovykta gas field in Siberia to Gazprom, were more directly linked to increasing Russian state control.¹²² These moves can be interpreted more in terms of the Russian state seeking to improve the terms of its relations with foreign energy companies, in the context of higher energy prices and Russia's growing self-confidence and assertiveness in international politics. They led to concerns in Western capitals about the security of investments in Russia and impacted negatively on Russia's image abroad.

Conclusion

The oligarchs who came to own large chunks of the Russian economy under El'tsin were primarily concerned with their economic interests, that is, with protecting and increasing their assets. Generally, foreign policy was of concern to them only insofar as it affected this. An exception was Berezovskii, who as part of the ruling 'Family' played a wider political role, and actively sought to promote the integration of the CIS on an economic basis.

¹²⁰ Michael Binyon, 'The Great Game is Revived by Pipeline Politics', *The Times*, 17 September 2005.

¹²¹ Stern, *The Future*, pp. 109-44; Pleines, 'Russian Energy Companies', pp. 47-87; Andrew Monaghan, 'Russia's Energy Diplomacy: A Political Idea Lacking a Strategy?' *Southeast European and Black Sea Studies*, 7, 2, June 2007, 283-4.

¹²² Carl Mortished, 'Gazprom secures Sakhalin control in £3.8bn deal', *The Times*, 22 December 2006, and Mortished, 'BP surrenders Russian gasfield to Gazprom', *The Times*, 23 June 2007.

The oligarchs, however, were highly dependent on the Russian state. When Putin decided to free himself from their political influence relying on former colleagues from the KGB and St Petersburg, he had no difficulty in forcing Berezovskii and Gusinskii into exile and divesting them of their media empires. The arrest and imprisonment of Khodorkovskii was probably motivated by many factors. Among these was the desire to intimidate the oligarchs into acquiescence in and support of Putin's policies, but also to begin to restore state control over the strategic sectors of the economy.

The moves against the oligarchs were paralleled by an attempt to bring the state-controlled energy companies, in particular Gazprom, more directly under Kremlin supervision. Under El'tsin Gazprom had had a privileged position, protected against being broken up, and in foreign policy occasionally playing the role of exerting pressure on CIS states on behalf of Russia. Under Putin, Gazprom seemed to become more integrated into foreign-policy making, with pricing policy often reflecting Russian foreign-policy interests. Interruptions of supply, on the other hand, appeared largely to reflect commercial considerations, but occasionally the timing of these cut-offs seemed to indicate political pressure. Undoubtedly they damaged Russia's image in Europe as a reliable supplier; and threats to find new markets in Asia lacked credibility.

Generally, Putin's moves against the oligarchs' influence and to reassert state control have been successful. This has been a mixed blessing for Russian foreign policy, however. While Russia appears both more assertive and stronger on the world stage, this has been at the cost of deteriorating relations with the Western democracies as they become more suspicious of Putin's centralizing intentions.

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