Conflict Studies Research Centre

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May 2003

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This paper outlines the relationship between Russian foreign policy priorities and those of Russia's international business elite, primarily in energy. It concludes that business interests rather than geopolitics have primacy.

The business oligarchies in Russia have played a significant role in the Russian political system since the demise of the Soviet Union in 1991. Their power probably reached its zenith in the mid-1990s, when they prominently backed then President Boris Yel'tsin's presidential election campaign in 1996. It was claimed by some analysts that Russian corporate interests had effectively privatised the state and used it to impose upon the country their own narrow interests. The Putin period has seen a process of reducing the power of the oligarchs, and enhancing the power of the state over them. However, these business groupings are still important within the political system, and are likely to remain so.[1]

The Putin leadership has to a far greater extent than the Yel'tsin leadership placed considerable emphasis in its statements on promoting Russian economic interests as an important feature of foreign policy.[2] This was implicit in both Putin's essay 'Russia on the Threshold of a New Millennium', placed on the internet on the day he became acting president of Russia on 31 December 1999, and the foreign policy concept of 2000. The Putin leadership emphasised strongly the benefits of economic globalisation, and saw it as important that Russia become an integral part of the western-dominated international economic system. Consequently, Russian foreign policy now places more emphasis on promoting Russian business interests overseas, seeking to make the Russian Federation a more attractive place for foreign investment, and has partly de-emphasised the geopolitical competition with the West which had been a feature of the late Yel'tsin period. Three developments highlight Russia's current interest in the economic dimension of foreign policy.

- A cooperation agreement was signed in January 2003 by foreign minister Igor Ivanov and Arkady Volskiy, President of the Union of Industrialists and Entrepreneurs, which aims at strengthening Russian companies' positions worldwide.

- In March 2003, the Ministry of Foreign Affairs (MFA) signed a cooperation agreement with the Russian Chamber of Commerce. In this agreement, the MFA undertook to make greater efforts to support Russian exporters. Foreign minister Igor Ivanov noted that "Russian business is entering on to world markets with a certain delay, when world markets have already been divided up, so making it difficult to find one's place in them, therefore state organs and business associations must do all possible for the economic advance of Russia."[3]

Russian Business & Foreign Policy
Conflict Studies Research Centre
ISBN 1-904423-38-8
May 2003

- In 2001, the Russian leadership became increasingly aware of the importance of energy as a factor in Russian foreign policy. In May 2001, Igor Ivanov said at the foreign policy institute MGIMO that "energy diplomacy" was becoming a new and fairly promising direction of Russia's international cooperation. He said that the Russian leadership was paying exceptional attention to the advancement of the energy sector and, in a broader sense, to the strengthening of Russia's energy security and its role as a great energy power. An Institute for the Fuel and Energy Complex was set up at MGIMO in 2000, so highlighting the increased importance that the energy factor was now playing in Russian foreign policy thinking. The institute was set up in order to provide Russian oil companies with the necessary specialists in the fields of international law, world economy, finances and management, so that these companies can effectively defend their interests in forums such as OPEC, the International Energy Agency (IEA) and the International Association of oil and gas producers.[4]

Exports of oil and gas account for about half of Russia's export earnings. The fuel and energy complex is therefore an extremely important part of Russia's foreign economic policy and can usefully serve as an example of Russian business in action internationally.

The Foreign Trade of Russia 1995-2001
($bn in current prices, incl shuttle trade)

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Exports	82.9	90.6	89.0	74.9	75.7	105.6	101.6
Incl crude oil	12.4	15.6	14.3	10.3	14.1	25.3	24.4
Incl natural gas	10.8	15.8	16.4	13.3	11.4	16.6	18.6
Imports	62.6	68.1	72.0	58.0	39.5	44.9	53.8
Incl machinery & eqpt	15.8	14.9	18.6	15.5	10.0	10.7	14.1
Trade balance	20.3	22.5	17.0	16.9	36.1	60.7	47.8

Source: Keith Bush, Russian Economic Survey December 2002, Centre for Strategic and International Studies. http://www.csis.org/ruseura/rus_econ0212.pdf

Vagit Alekperov, president of Lukoil, sees the interests of Russian oil industry as an important feature of post-communist Russia. In November 2001 he stated that:

> 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.
>
> We in the company Lukoil consider ourselves a national Russian company, and we do not accept the ideology of the division into state, private and other companies. We without any false pathos affirm that every step we have made in the last ten years in the history of our company has gone in the struggle for the new Russia, striving to take into account the national interests of our country.[5]

In *Izvestiya* in June 2002 he argued that the consciousness of the natural energy advantages of Russia has become the basis of a new Russian geopolitics, saying that Russia's integration into the international community could only take place on the basis of her raw materials. He wrote of the importance of the overseas expansion of Russian energy companies:

> The key role of the Russian raw materials complex in the world economy determines the objective necessity of the obtaining by Russian oil and other raw material companies of profile assets abroad. In this way Russia's economic influence will be strengthened ...
>
> ... In this way one cannot here lose the moment and delay with decisions. The countries of Eastern Europe at the current time are putting up privatisation tenders for a range of attractive oil-gas objects, which can be obtained by Russian companies. One should not consider these investments as the export of capital or simply make declarations about the greater usefulness of investing in Russia. International experience speaks of the usefulness for national economies of the foreign expansion of national companies. The effect here achieved is multi-faceted and actively co-acts with the positive integration of countries into the world economy. The oil and gas acquisitions of Russian companies are the strong points of the development of wider economic ties and create the basis for other inter-branch ties.[6]

Russian Energy Minister Igor Yusufov takes a similar view. In an interview in *Mirovaya Energetischeskaya Politika* in March 2002, he stated that the "Russian fuel-energy complex should become a real locomotive for the development of the national economy". He commented that the export of energy resources was a major priority of Russia's energy policy. He also stated that another major priority for Russian national interests was "attracting on mutually advantageous conditions foreign capital into the Russian fuel-energy complex, and also the participation of Russian capital into the energy complexes of other countries: a special priority is the relations with near neighbours in the CIS".[7]

The Russian state is the biggest single shareholder in the gas producer Gazprom, owning 38.37% of the shares. A further 13% of shares is controlled by Gazprom and its subsidiaries, so giving the state and the company together over 51% of the shares.[8] In many respects therefore, Gazprom is a tool of the Russian state, and Gazprom's overseas interests are closely intertwined with state interests and policy.[9] The second major gas company in Russia is Itera, which is connected with Gazprom.

Given the importance of Russia as a source of energy for many states in the former Soviet Union, the activities of Russian oil and gas companies in these states is a means of giving Russia a presence and an interest in them. Since the Russian leadership since 1991 has seen the former Soviet Union as an area in which she would like to maintain a strong influence, the presence of Russian energy companies is a means that facilitates achieving this objective. Those who perceive Russian policy towards the former Soviet states as being hegemonic may perceive the desire of Russian companies to acquire assets in these states as evidence of an imperialist approach.

Gazprom, Lukoil and the oil company Yukos have developed extensive interests in many parts of the former Soviet Union. The following section gives a listing of their investments in the near abroad.[10]

Baltic States

In Estonia, Gazprom has a 31% stake in Eesti Gaas. Other shareholders are Ruhrgas (Germany, 32%), Fortum (Finland, 10%), and Itera (9.5%). In November 1999, Eesti Gaas signed a long-term agreement with Gazprom to supply Estonia with natural gas from 2000 to 2005.

In Latvia, Latvijas Gaze (Latvia Gas) controls the country's natural gas distribution system and its huge underground storage facility near Riga at Incukalns, the only natural gas storage facility in the Baltic states and the third-largest storage facility in Europe. The former state-owned company has been restructured as a joint-stock company and has been substantially privatized. Latvijas Gaze's largest shareholders are Gazprom, Germany's Ruhrgas and EON Energie, and Itera Latvija, a subsidiary of Itera. In October 2002, Latvijas Gaze reached an agreement with Russia's Gazprom on natural gas supplies to Latvia for the period from 2003 to 2005, providing for a 15% to 20% increase of supply price.

Latvia's main oil and oil product pipelines stretch from Polotsk, Belarus across Lithuania to Ventspils. These pipelines are managed by the Latvian-Russian joint venture LatRosTrans, owned by the Ventspils Nafta oil terminal from Latvia and Transneft, Russia's pipeline monopoly. Several Russian oil companies, as well as Transneft, have expressed interest in Latvia's stake in Ventspils Nafta. In April 2003, Transneft said it would resume oil supplies to Ventspils oil terminal in exchange for part of the shares of the Latvian oil terminal. Sergey Grigor'yev, the vice-president of Transneft, said that Latvia has one year in order to consider and resolve this problem.[11] After the Baltic pipeline system is commissioned in 2004, Russian oil will be supplied to the Primorsk terminal in the Leningrad Region.

Dujotekana, controlled by Gazprom, is Lithuania's largest natural gas importer, accounting for over 40% of the imports to the Lithuanian market. Itera also has begun supplying the Lithuanian market with Russian natural gas. In December 1999, Lietuvos Dujos (Lithuanian Gas), the majority state-owned company that controls Lithuania's natural gas transmission, distribution, and export operations, signed a long-term supply agreement with Russia's Gazprom, starting with 53 billion cubic feet (bcf) in 2000 and increasing to 88 bcf in 2005.

The Lithuanian government has begun to privatize Lietuvos Dujos, starting with a 34% stake that it sold to a German consortium of EON Energie and Ruhrgas for $33 million in June 2002. Gazprom was the sole bidder for a 34% stake in Lietuvos Dujos in the second phase of the privatization in the autumn of 2002, but its offer of $23.3 million was considered by the Lithuanian government as too low. Therefore, in November 2002, the Lithuanian authorities proposed postponing the beginning of a wider liberalization of the country's natural gas distribution sector, hoping to delay deregulation in order to boost the value of Lietuvos Dujos and negotiate a higher sale price with Gazprom. The Lithuanian government is planning to keep a 24.36% stake in Lietuvos Dujos and potentially sell it later on the stock exchange.

In June 2002, Yukos acquired a 26.85% stake in the Lithuanian oil complex Mazeikiu Nafta for $75 million, becoming an equal partner with the US company Williams International, whose stake in the company decreased to 26.85% from an original 33%, while the Lithuanian government's stake decreased from 59% to 40.66%. Yukos pledged to provide Mazeikiu Nafta with at least 4.8 million tonnes of oil per year (96,400 bbl/d) for 10 years. In September 2002, Yukos increased its shareholding in Mazeikiu Nafta to 53.7%, buying out Williams' stake for $85 million and taking over management rights and operational control in the Lithuanian oil complex. Yukos is boosting crude supplies to the Mazeikiai refinery to 600,000 tonnes per month (145,000 bbl/d) during the last quarter of 2002, citing a 25% increase in refining margins.

Lukoil had hoped to participate in the privatisation of Mazeikiu Nafta, but was shut out. In February 2000 the Russian Oil and Gas Industry Union announced plans to build a small, modern oil refinery in Latvia, partly in response to Lithuania's decision to sell its Mazeikiai refinery - the only refinery in the Baltic states - to Williams International rather than to Lukoil. A new refinery in Latvia would give Lukoil another downstream option in the Baltic states to compete with the Mazeikiai refinery. Plans for the $200-million, 40,000-bbl/d-capacity refinery have stalled, however, as Lukoil and Williams International have continued discussions on a long-term deal to cooperate and coordinate their activities in the Baltic region.

Belarus

Gazprom expects to acquire a 25% to 30% stake in Beltransgaz, which operates 4,100 miles of natural gas pipelines in Belarus, as well as eight compressor stations, 250 natural gas distribution stations and two natural gas storage reservoirs, as compensation for Belarussian natural gas arrears. Belarus has pledged to transfer the stake to Gazprom before 1 June 2003.

Ukraine

In March 1999, Lukoil paid $7.2 million for a 51.9% stake in Ukraine's 78,000-bbl/d Odesa refinery, the country's fourth largest in terms of refining volumes. Since its original purchase, Lukoil has increased its stake in the refinery to 94% by purchasing additional shares on the secondary market. Lukoil has invested over $2 million in reconstructing the Odesa refinery and petroleum product sales outlets throughout Ukraine.

Russia's Tyumen Oil, through its subsidiary TNK-Ukraina, acquired 67% of the 320,000-bbl/d Lisichansk (LiNOS) refinery in July 2000, then upped its stake to 78% in October 2000. The company is carrying out an investment programme to modernize the plant over the next five years and to boost its design capacity.

Privatization in Ukraine's gas sector has been nonexistent, but there is increasing focus on the potential for privatizing the country's gas pipelines. Ukraine's gas transit system is in a state of disrepair and needs several billion dollars worth of investment. Since Ukraine's pipelines carry over 90% of Russian gas exports to Europe, Gazprom, the Russian pipeline monopoly, has expressed its interest in acquiring shares in Ukraine's pipelines to ensure its gas reaches its European customers. As payment for Ukraine's $1.4 billion gas debt, Gazprom has long sought to take a stake in all or part of Ukraine's state-owned gas pipeline system.

Rather than privatize its transit pipeline system, in June 2002 Ukraine, along with Russia (the major gas exporter via Ukraine) and Germany (Europe's largest consumer of Russian gas) signed a trilateral agreement to explore the creation of an international consortium to manage and develop the Ukrainian gas pipelines in order to secure stable gas transit to Europe. Ukrainian and Russian officials have signed an agreement on the operation of Ukraine's underground gas storage facilities by Gazprom up to 2013.

Moldova

Moldova is totally dependent on Russian gas supplies, and its debt to Gazprom is around $280 million (Transdnestr’s is $400 million). In March 2003, Gazprom stated it was prepared to reduce the price of gas to Moldova from $80 per cubic metre to $50. It is speculated that in response, the Moldovan leadership is allowing Russian business to buy up assets in Moldova. Five large Moldovan enterprises were bought up by Russian companies in 2002.[12]

Transcaucasia

Natural gas in Armenia is distributed by Armrosgazprom, a closed joint-stock company owned by the Armenian government (45%), Gazprom (45%), and Itera (10%).

Armenia and Iran signed a transit agreement in December 2001 to allow Armenia to import Turkmen gas via Iran. Turkmenistan is linked to the Iranian gas pipeline network through the Korpezehe-Kurt Kui pipeline, which opened in December 1997. The estimated cost of the Iran-Armenia pipeline is $120 million. The European Union has declared its readiness to assist in financing the pipeline's construction, but Gazprom and Itera, both of which previously expressed an interest in participating, announced that they would participate in the construction only through their partial ownership of Armrosgazprom.

Armrosgazprom planned to re-invest $6 million from its own funds in 2001 in an effort to rehabilitate Armenia's gas sector. In February 2001, Armenia and Russia reached an agreement on Armenia's $7-million debt for gas shipments dating back to 1999, which Itera supplied on Gazprom's behalf. Since Gazprom and Itera owed Armenia their contribution to the incorporation capital of Armrosgazprom, in July 2001 Itera agreed to write off Armenia's debt in exchange for the Armenian government transferring its gas pipelines owned by Armrosgazprom to Gazprom/Itera.

In November 2002, as part payment of the national debt to Russia, the Armenian government transferred ownership of several state owned defence enterprises to Russia. This transfer covers $93 million of the Armenian debt to Russia. These enterprises are largely concerned with electronics, and formed part of the Soviet military-industrial complex. The Russian state aims to get these enterprises working efficiently, and will then sell them off to private Russian companies. The acquisition of these industries is another means of enabling Russia to maintain a presence in Armenia.[13]

Georgia

Itera has been supplying Georgia, but the company has repeatedly reduced gas supplies to Tbilisi in order to force Georgia to pay its bills. As of December 2001, Georgia owed Itera about $90 million for previous gas supplies, prompting Itera to require prepayment for gas shipments to Georgia after 1 January 2002. The Georgian company Gruzgaz is completely owned by Itera.

Georgian leaders hope to decrease this reliance on gas imports in coming years by courting foreign investors to develop the country's gas deposits and by reforming the country's gas distribution system. However, to date there has been little interest among international energy companies in Georgia's gas production potential, and attempts to private Tbilgaz, the municipal gas distribution company serving Georgia's capital, have failed repeatedly. In June 2001, Georgia once again offered an international tender for an 85% stake in the Tbilisi distribution network. With the network only 25% operational, no bids were received.

Energy companies have had more interest in Georgia's gas transmission sector, mainly due to the country's burgeoning role as a transit centre for gas exports from Azerbaijan. The Georgian International Gas Corporation, which runs the country's transmission system, has been working on a programme to modernize Georgia's internal gas pipelines, which stretch over 6,000 miles, in order to pump Azeri gas via Georgia for the planned Baku-Erzurum pipeline. In October 2001, the Georgian International Gas Corporation and Russia's Gazprom joined forces to create Gruzrosgazprom, a joint venture that will develop and operate the gas transport system in Georgia. The Georgian International Gas Corporation owns 51% of the joint venture.

Uzbekistan

In March 2002, Itera and Lukoil signed a production sharing agreement (PSA) with state owned company Uzbekneftegaz to form a joint-stock company to develop several new gas fields in Uzbekistan, including the giant Kandym field. Natural gas reserves at the fields covered by the PSA are estimated at 8.1 trillion cubic feet (tcf), including approximately 5.4 tcf at the Kandym structure. Initial investments in the project are estimated at $377 million, with gas production rising from 159 bcf per year to between 280 bcf and 350 bcf per year at its peak. Itera and Lukoil each will hold 45% shares in the company, with Uzbekneftegaz keeping a 10% stake in the project.

Conclusions

The energy sector is arguably the most important sector of the Russian economy, in view of the contribution it makes to Russia’s export earnings. It appears logical to argue that Russian energy companies are an important aspect of Russia’s policy towards the near abroad, in view of the dependence of many of these states on Russian energy supplies and pipeline infrastructure. The supply of oil and gas and the acquisition of assets by Russian energy companies in these states are a means of tying these states to Russia, so the interests of these companies in acquiring markets and overseas assets dovetails neatly with the political interests of the Russian state. As the interests of the state and the energy sector are closely interwoven in the near abroad, it is hard to say whether these companies are the main driving force in Russian policy towards the near abroad. Furthermore, whilst investments by Lukoil, Yukos, Gazprom etc, in the near abroad may serve as a means of projecting Russian influence into these states, these companies are often competing with western companies, which could therefore act as a check on Russian influence.

As Russia is a significant oil producer, her relationship with OPEC is an important one. OPEC would like Russia to become a member, but the Russian leadership has said this is a matter for negotiation, as the current interests of OPEC and Russian oil producers do not fully coincide. Russian oil companies opposed export restrictions imposed by OPEC in January 2002, and the Russian government decided in May 2002 to lift these restrictions gradually, following talks with Russian oil producers. In January 2003, Yukos head Mikhail Khodorkovskiy said Russia could not meet conditions for a short-term reduction in oil supplies proposed by OPEC.

Outside the near abroad, it is harder to argue that foreign policy is driven by business interests, or to go beyond the obvious generalisation that the Russian state wishes to promote the overseas interests of Russian companies. Certainly, the expansion of the interests of energy companies further afield, into places such as the Balkans and Algeria, obviously expands the range of Russian economic and therefore political influence. However, it cannot be argued that Russian energy companies drive every aspect of policy. Energy is an important aspect of the Russia-EU relationship, but Russia’s desire for a closer relationship with the EU is driven by more than commercial interests. The same is also true of Russia-US relations. It is highly unlikely, for example, that Russia’s opposition to the US decision to take military action against Iraq without a UN mandate is driven solely by the interests of Russian oil companies which had signed agreements with the Saddam Hussein regime. Russian policy over Iraq stemmed more from a strategic opposition to American unipolarity, which threatens to reduce Russian influence in the international system. With regard to US-Russian relations, both the Russian state and the business community would like to see the Jackson-Vanik amendment to the US-Russia Trade Bill lifted, as this would improve the prospects for Russian exporters to the USA. This is an area of US-Russian relations where the business community has a logical interest, but the overall relationship is driven by other factors.

The financial activities of Russian organised crime overseas is a specific issue area in Russia’s relations with foreign states, and does not appear to affect the overall relationship with given states. The same can be said of capital flight. Money laundering has also been a problem, with Russia being blacklisted for several years by the Financial Action Task Force on Money Laundering (FATF). In October 2002, the FATF removed Russia from its blacklist.[14]

Therefore, whilst Russian energy interests are of geopolitical significance in the near abroad, and potentially of such significance in other areas near to Russia’s borders such as south-eastern Europe, it would be logical to see the drive of companies such as Gazprom and Lukoil for markets as an important component of Russian policy in these areas. In some cases, it may be a major driving force. In the far abroad, the business lobby is likely to be one of many factors influencing policy, but is unlikely to be a decisive driving force, although its views on important areas of foreign economic policy, such as World Trade Organisation negotiations, would obviously be taken seriously by the Russian leadership.

ENDNOTES

[1] For a discussion of the role of oligarchs in the Russian political system see: S P Peregrudov, 'Krupnaya Rossiskaya capital v sisteme vlasti', Polis, 3, 2001, pp16-24; see also his 'Korporativny capital i instituty vlasti: kto v dome khozyain?', Polis, 5, 2002, pp74-84; S Fortesque, 'Pravit li Rossei oligarkhiya?', Polis, 5, 2002, pp64-73; Natal'ya Melikova, 'Aleksandr Mamut plays all the cards', Nezavisimaya Gazeta, 19 February 2003, plus the discussion entitled 'Politics will not come out of the shadows before the economy', Nezavisimaya Gazeta, 14 April 2003; David E Hoffman, The Oligarchs: Wealth & Power in the New Russia, Public Affairs, 2002.

[2] See Bobo Lo, Vladimir Putin and the evolution of Russian foreign policy, Oxford, Blackwell Publishing, 2003, pp51-71.

[3] See the website of the Russian Chamber of Commerce, http://www.tpprf.ru/ru/main/news/news-torg/news_current.shtml?2003/03/20030324-9585.html

[4] See Anatoly Torkunov, 'MGIMO widens', Nezavisimaya Gazeta, 21 June 2001 in DIP'KUR'YER, No 10. Torkunov is the rector of MGIMO. Russia is not a member of OPEC or the IEA.

[5] Vagit Alekperov's speech to the international oil forum, 22 November 2001, http://www.lukoil.ru/press_center/artic.htm?artid=286

[6] Vagit Alekperov, 'Oil potential. Only an intelligent use of energy resources can ensure stable economc growth in the country', Izvestiya, 26 June 2002.

[7] Igor Yusufov, minister of energy of the Russian Federation, 'The Fuel-Energy Complex will become the locomotive of Russia's economy', Mirovaya Energetischeskaya Politika, 1, 2002, pp8-11.

[8] Olga Gubenko, 'Possessed by gas. Cheap. Gazprom promises to give itself fully over to the state', Izvestiya, 13 March 2003.

[9] See Yury Komarov, 'Gazprom in the international market', Diplomaticheskiy Vestnik, 12, 2001, pp181-184. Komarov is one of the directors of Gazprom.

[10] The information below is taken largely from the country analytical briefs on the website of the US Department of Energy. http://www.eia.doe.gov/emeu/international/

[11] See ITAR-TASS, 30 April 2003 from BBC Monitoring, Caversham.

[12] Igor Plugtarev, Natal'ya Prikhidko, 'Gazprom rescues Voronin', Nezavisimaya Gazeta, 17 March 2003.

[13] Konstantin Frumkin, 'We are now answering those whom we credited', Nezavisimaya Gazeta, 6 November 2002.

[14] See FATF website http://www1.oecd.org/fatf/index.htm

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ISBN 1-904423-38-8

Published By:

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Haig Road
Camberley
Surrey
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England

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ISBN 1-904423-38-8