

**Lecture 7: Resource Nationalism and Market Power (III) – Russia, the Post-Soviet Space, and Europe**

Resource Nationalism

- 1<sup>st</sup> Kind
  - Nationalizing the oil company
  - Nationalizing foreign investments
- 2<sup>nd</sup> kind
  - once country has nationalized, controls the way that marketing of resources will be used for political gain
    - Russia is prime example

Russia

- After US, Russia was the 2<sup>nd</sup> country to really push for Russian oil development
- After fall of Soviet Union, there was huge question over how the industry was going to be structured
- Former provinces raised big question over how things were going to be governed
- Important Soviet states
  - Azerbaijan
    - West part of Caspian Sea
    - The most open to foreign investment
  - Kazakhstan
    - East part of Caspian Sea
    - Has largest gas reserves
    - Open to foreign investors
    - It's nice!
  - Uzbekistan
    - Has some
  - Turkmenistan
    - Has 5<sup>th</sup> largest reserves of natural gas in the world
    - Not good for foreign investors (US and China)
- National energy companies in all former Soviet nations
  - Not all very open to foreign investment
    - Both US and other countries (like China)
- Story is very complicated but highly entertaining
- How it evolved
  - Initial period of not quite a decade after SU was dissolved, oil industry might be restructured under market powers
- 3 big players in Russian energy
  - Gazprom
    - State owned gas company
    - Huge reserves under control
    - Monopoly on export of natural gas from Russia
    - Controls the pipeline system for Russia
  - Rosneft
    - National oil company
  - Transneft
    - State owned
    - Controls oil pipelines in Russia

- Initially looked like these guys would be shadowed by private companies during the emergence of the oligarchs in post-Soviet Russia
  - Oligarchs were playing a huge role in emerging private market
- Companies that looked like they were going to play a role in post-Soviet energy
  - Yukos
    - Entered into discussions with ExxonMobile
    - One option was that ExxonMobile would buy Yukos
  - TNK
  - Sibneft
  - Novatek
    - Largest and recently created
  - Lukoil
    - Doing quite well
    - Growing internationally
    - Allowed to flourish
- Also looked like there was going to be room for foreign investment
  - TNK and BP joined up
    - Was going to be a 50/50 split
    - Controls Kovytka
      - Largest gas field
      - In western Siberia
      - If Russians want to provide gas to eastern Asia, they must develop this field
  - Investment projects
    - Other fields in Siberia
- All of this was playing out during the tenure of Boris Yeltzin
  - Internal in-cohesion
  - 1990s was not a good time for Russians
    - "The Lost Decade"
  - the post-Soviet Russian economy contracted
  - Life expectancy decreased during this time
  - Russia was economically weak
    - Low oil prices
      - Not earning significant revenues
    - Increasingly indebted
  - 1998
    - Ruble got caught up in east asian currency crisis
    - Government defaulted
  - US was able to push through a lot of policy in the area during this time since Russia was so weak
    - Kosovo
      - Increase in NATO states in the area
  - Yeltzin became alcoholic and began dementia during second term
- In with Putin
  - Came onto the political scene when Yeltzin brought him in to the government out of nowhere
    - Former KGB from St. Petersburg
  - Resoundingly popular with the people
    - Could potentially try to alter the constitution to run for third term

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- 70% approval rating
  - Resurgence of some authoritarian tendencies (to put it lightly)
    - Mostly focuses on controlling TV
    - Consolidation of political authority in the executive branch
      - Neutering of the government
  - Robust exercise of the first species of resource nationalism
    - Remarkably reassertion of state dominance in the energy sector
    - Tried the head of Yukos for money laundering
      - Had company taken away from him, split up assets and gave them to national energy companies
    - Message from Putin to energy companies
      - You can continue to operate but you have to abide by what the Kremlin says
        - Foreigners will not have an equal or greater stake in Russian energy companies
        - Yukos' mistake was to consider allowing ExxonMobile to have a greater than 50% of the shares of the company
      - Gazprom and Rosneft have done IPOs in England!
        - Russian government is okay with that as long as they still have majority power
  - Putin is as close as a modern statesman comes to Don Corlioni
    - It's not personal, it's business
- Efforts of US companies to get into the Russian oil market
  - Particularly in the fields called Sakhalin-I and Sakhalin-II
  - Shell
    - Got targeted by the government
      - Government wanted larger share of profits
      - Went after shell for environmental violations
      - Shell had to accept a major reduction in Sakhalin II
    - ExxonMobil
      - Now being targeted by Putin
  - Putin has said that there will be no more 50/50 splits with Russian oil companies
    - This means that Kovytka will not be developed anytime soon
      - A strategic asset that will not be developed until the government has sufficient control
- Chinese companies have been trying for a decade now to get upstream access
  - The first delegation from China was kidnapped when they came to Russia!
  - TNK is going into a joint venture with SINOPEC
    - SINOPEC will only have 49% of equity in assets
    - SINOPEC basically gets screwed in order to get into the Russian upstream
    - SINOPEC will get some favorable financing from Chinese banks
    - Purchase price that SINOPEC is paying will be reimbursed with barrels of oil that are harvested from the oil fields
    - Bottom line is that Rosneft will have majority control of the deal

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- This will be the norm
    - Resource nationalism Putin style
  - 2<sup>nd</sup> kind of resource nationalism
    - Now that Putin has reestablished dominance in energy, how is he going to use it politically?
      - internal political dominance
        - control over revenue streams
          - uses that to strengthen central government
          - strengthen the position of his supporters relative to other political factions
            - goes about this in a very entertaining way
      - Reassert Russian control over former Soviet states
        - Former soviet states as the “near abroad”
        - When Putin came in he stopped talking about the near abroad
          - US wouldn’t accept that Russia had special prerogatives over former Soviet States
            - Didn’t feel comfortable pushing back yet
          - “Near abroad” changed to “Post-Soviet Space”
        - After 9/11 the US wanted to establish military bases in former Soviet states and particularly central Asia
          - Putin agreed
        - After 2 or 3 years it became clear that Putin had a much different idea for post Soviet space
        - Supplier states
          - Have their own oil and gas reserves and industries
          - States listed earlier
          - Putin does not want any of these states to develop positions where the majority of their oil/gas exports are going to markets through infrastructure that is not under Russian control
          - No export markets in ways that undercut Russian market share
          - No developing export markets where Russian wants to develop an export markets
            - Asia is prime example
        - Transit States
          - Transit corridor
          - Pipelines
            - East-West Energy
            - Blue Stream Pipeline
            - BTC pipeline
            - SCP
          -
        - Customers
      - Make Russia a dominant player in important markets
        - Europe and prospectively in Asia

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- Using revenues that have been generated as the basis for reestablishing some sphere of autonomy in foreign policy terms
  - Push back against US unilateralism in global affairs