



## POLITICS OF ENERGY RESOURCES (III)

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## **PART 3- ENERGY JUGGERNAUT**

**Author: Michael T. Klare**

**Title: Energy Juggernaut, Chapter 4 in Klare, Michael T. (2008) “Rising Powers, Shrinking Planet: How Scarce Energy is Creating a New World Order”, Oneworld Publications, Oxford**

### **SUMMARY**

In this chapter of the book, it is evaluated the Russia's decline just after the collapse of Soviet Union and rapid growth after Putin's period both in economic and political sense thanks to energy resources. Russia is a perfect example which shows how energy resource abundance can change the power relations and gives a specific country a huge geopolitical power in world politics. After the sharp decline in energy output resulting from the wholesale liquidation of state assets at the time of the collapse of Soviet Union, oil and gas production per day in 1996 had been halved (oil decreased from 11,1 million barrel to 6,1 million barrel per day) and this, in return, decreased the political power of Russia in Yeltsin's time. However, starting from the Putin's successful and clever moves in energy resources policies, Russia has become a tremendous geopolitical player thanks to its raw material inheritance.

The new technologies and rise in global oil prices are shown as two important points by Klare in order to mention the economic growth in Putin's time (6,7 % in 2006) arising from the acceleration in oil production. Having owned the world's largest gas, second largest coal, seventh largest oil and one of the largest uranium reserves, Russia enjoys being the only Great Power that holds vast energy resources and consumes less than it produces which in return brings a high production surplus and helps to compensate the current account deficit. Here, Klare notes Viktor Khristenko's (Energy Minister of Russia) 2006 speech that “*(W)e are aware that old impressions fade slowly, but it is time for the West to recognize the maturing role and state of progress that Russia has achieved.*”<sup>1</sup>

The strategic importance of Russian gas being sold to Western Europe and former USSR satellites of Eastern Europe gives Gazprom, the largest Russian company with a very high state share, a key and major role in strengthening Russia's geopolitical power and it seems to increase in the near future due to increasing dependency on Russian gas due to accelerating demand from those countries.

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<sup>1</sup> Tabassum Zakaria, “Russia Urges G-8 Nations to Bury Cold War Ghosts (May 9, 2006)”, Available at <http://www.thestar.com.my/news/world/2006/05/09/russia-urges-g8-nations-to-bury-cold-war-ghosts/>

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One may ask that how and why Russia's energy policy changed so much that Gazprom centered on its policy. Klare gives a good brief about the timeline and historical process from end of Soviet Union to rise of Putin in order to monitor the rise of Gazprom and energy politics. Dmitry Medvedev, the board chairman of Gazprom in 2006, mentions that "... (t)he value of Gazprom was 9 billion dollar in 2000 and it has almost reached to 300 billion dollar in 2006."<sup>2</sup> According to Klare, international energy order at the post-Soviet Period in Yeltsin's time was shaped so as that a weak central government was giving wide privileges to West originated companies for resource extraction and systematically privatizing state's most valuable energy assets. However, after Putin came into power, this policy has changed completely in opposite direction and control of energy resources were given to government control. Klare summarizes Putin's policy as directly intervening in every pivotal moment in order to ensure state's victory over powerful and rich oligarchs which controls the energy assets. That is to say with Klare's own words, "Like a commanding general in time of war, he first mapped out an overall plan of attack and then supervised its implementation-skirmish by skirmish, battle by battle."<sup>3</sup> Although the common view of Russian economists was in favor of privatization and weakening the role of government in economic issues, Putin advocated the increasing role and direct control of the state over natural resources in order to prevent exploitation of Russia's raw materials by private or foreign investors.

How and when did Putin come up with the idea of resource control for economic development? According to Klare, it is mentioned by Martha Brill Olcott in "Carnegie Endowment for International Peace" that Putin's view on controlling natural resources and its impact on securing economic development and guaranteeing the state's international role was brought to maturity in Putin's dissertation on "Mineral Raw Materials in the Strategy for the Development of the Russian Economy". Having seen it as the right of state to control and regulate use of natural resources no matter on whose property it is located, Putin chose Mikhail Khodorkovsky, the wealthiest man of Russia and CEO of Yukos, as his first target in order to show state's power and break the monopoly of oligarchs.

Klare argues that why Putin chose Khodorkovsky as the first target was based on two developments: Khodorkovsky's intention to enter in to politics and organized opposition against Putin's state control policies, and involvement of Yukos in excess cooperative

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<sup>2</sup> Michael T. Klare, *Energy Juggernaut, Chapter 4 in Klare, Michael T. (2008) "Rising Powers, Shrinking Planet: How Scarce Energy is Creating a New World Order", Oneworld Publications, Oxford* p 89

<sup>3</sup> *Ibid*, p92

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discussions with US energy firms (Exxon and Chevron) which are seen as challenge to Putin's authority. At the end of 2005, Khodorkovsky was found guilty and sentenced to prison for 9 years.

When it comes to Gazprom and its rise, Klare summarizes its historical evolution from its first establishment in Gorbachev's time to being a world giant company of holding 16 percent of the world's natural gas reserves in Putin's time. Unification of gas related enterprises under Gazprom and partially privatization in 1993, Gazprom was seen as the company of corruption in Yeltsin's time when 39,4 percent of the shares of company belong to state. Here, Klare notes that when came to office in 2000, Putin chose Alexei Miller and Dmitry Medvedev in order to control Gazprom and gave the majority shares to state control by buying additional 10,7 percent of the shares.

While diversifying Gazprom into oil industry on the one hand, Putin also used Yuganskneftegas as the state power for merging other private oil firms such as Sibneft and Rosneft. Besides, Putin also cancelled or the terms of international gas and oil extraction agreements with international companies in favor of Russian government order to hone its major role as a geopolitical player. For instance, Klare gives Sakhalin-1 and Sakhalin-2 consortiums headed by Exxon, Royal Dutch Shell and Mitsubishi as examples of how Putin changed the pre-arranged international agreements of Yeltsin's time by using the state regulatory institutions. Even the environmental concerns of activists was manipulated for the aim of controlling natural resources in Sakhalin island by setting forth the environmental degradation caused by those international companies. As soon as Gazprom hold 50 percent of the shares of Sakhalin consortiums, environmental problems suddenly disappeared in the eye of state authorities. By doing so, according to Klare, Putin both turned the international companies into small minor partners and gained control over the natural resources.

What has been the role and impact of natural resources control by Russian state on international power play? Klare here notes Oleg Mitvol's speech that "*(T)imes have changed in Russia. We want international investment but we don't want to be made into a banana republic.*"<sup>4</sup> which gives a better understanding about how Russia's self-confidence and national position developed thanks to natural resources. Without doubt, Russia has seen US as a strategic country to have good relations in order to play a better role in geopolitical power rivalry

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<sup>4</sup> Andrew E. Kramer, News Analysis: Russian oil reversal stirs outcry - Business - International Herald Tribune (September 19, 2006), Available at <http://www.nytimes.com/2006/09/19/business/worldbusiness/19iht-sakhalin.2867275.html>

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however US overestimated the dialogue with Russia and its help in global war on terror after 9/11 attacks. When Bush made a common declaration with Putin in 2002 Moscow encounter, saying that *“(W)e welcome the fact that the Russian Federation has confirmed its role as a major world energy provider. In order to strengthen our overall relationship and enhance global energy security and international strategic stability, we have agreed to launch a bilateral energy dialogue”*<sup>5</sup> with hope of energy dialogue with Russia despite many opposition within the US, he underestimated Putin’s desire to increase his influence in power politics with Europe and Asia thanks to its advantage in and their dependency on oil and gas reserves. After Gazprom’s 2006 decision to send natural gas directly to Europe rather than selling it to the US as LNG and Russia’s direct threat to cut off the energy to Ukraine and Georgia, US government was convinced that Putin was using the natural resources as political warfare. Vice President Dick Cheney’s speech that *“(N)o legitimate interest is served when oil and gas become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation”*<sup>6</sup> is noted by Klare to show the attitude of US government on Russia’s strategic play on energy politics. Looking at the energy policies of Putin, it is worth to mention how he played between China and Japan when it comes to Russia’s Siberian oil and gas reserves. Because it is difficult to transfer Siberian reserves to Europe and continuous conflicts make Middle Eastern reserves more complicated, Putin played well in order to increase competition between China and Japan for access to Siberian oil. Japan offering huge credits and financing to Russia on the one hand and China lobbying continuously for a pipeline project on the other, made Russia a major player in international power politics and Russia saw this as an opportunity to kick US out of the Central Asian power play.

To sum up, Russia sees the whole world as a playground to exert power with the help of energy resources during Putin’s period. Bringing state control back over the oil and gas resources, being the major supplier of the whole Europe put Putin to world stage as the main actor of the energy juggernaut as Klare calls. To conclude, Klare uses Putin’s words that *“I formulated tasks for the development of Russia from 2010 until 2020.”*<sup>7</sup>

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<sup>5</sup> Joint Statement on the New US-Russian Energy Dialogue, Full transcript Available at <http://en.kremlin.ru/supplement/3480/print> Last Accessed at 05/06/2016

<sup>6</sup> Vice President's Remarks at the 2006 Vilnius Conference, Full transcript Available at <https://georgewbush-whitehouse.archives.gov/news/releases/2006/05/20060504-1.html> Last Accessed at 05/06/2016

<sup>7</sup> Klare, “Energy Juggernaut” p114

### CRITIQUE

This chapter is a good example for understanding the role of owning energy resources in power relations. Russia, blessed with vast energy resources like oil, gas and minerals, started to play a major role in world politics in Putin's period. Here, Klare utters that owning energy resources is not enough alone to have strong position in power play unless a strategic and successful administration is benefitted in order to control and plan the use of those resources. Putin is a perfect example what happens when a leader controls and commands the vital resources within the country.

Putin's desire and strategy for controlling the economic diplomacy by controlling the energy resources through state power is explained by Klare in details. In this respect, Putin's first move was successful in two aspects. First, his first target, Khodorkovsky, was a well-chosen target to be an example for other oligarchs. Secondly, starting from energy oligarchs was a successful strategy for increasing legitimacy and power of government authority.

Two comments of Klare catch great attention in this chapter about Putin and his rise on the shoulders of Russian energy resources. The first comment is about how a better strategy for resource management has strengthened Russia's self-confidence and national position in world politics. Comparing Putin's Russia with Yeltsin period, it is obvious that Russia is a more active and powerful actor in international relations where accessing to sustainable energy is vital for states to survive. The second comment is about how Bush underestimated the power Putin acquired after commanding the management of energy resources. It is clear that Bush underestimated Putin's desire to increase Russia's influence and control over Europe and Asia by manipulating the oil and gas supply transferred those countries settled in that geography.

Here, it is important to analyze some of Klare's comments on oil and gas economy which might be misinterpreted. First of all, although Klare claims that the economic crisis of 1990's Russia arise from decreasing oil production, it should be noted that decreasing trend in oil prices were more influential rather than the production. Historical Oil Prices Table<sup>8</sup> shows us that oil prices were considerably low in 1990s which ended up with an economic crisis in Russia.

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<sup>8</sup> Historical Oil Prices Table, Available at [http://inflationdata.com/Inflation/Inflation\\_Rate/Historical\\_Oil\\_Prices\\_Table.asp](http://inflationdata.com/Inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp) Last Accessed at 03/06/2016

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Considering Putin's attempt, it would be well understood this strategy working successfully in Russia however it is questionable whether it would be easy for another country with different geography to enjoy same strategy of controlling and commanding the natural resource management. Russia, with its wide lands passing through 11 time-zones and with a very harsh climate, bears very high startup, fix and operational costs which necessitate state-led investments in order to develop and sustain its economy. Because none of the private companies alone can bear that much cost of operating in that vast geography, it is easier for state authority to control and command industry and natural resources. In contrast to Russia, it might not be that easy for other resource rich countries to develop that kind of state control so easy.

Another point that should be mentioned about Russian economy is, without doubt, too much dependence on its resources. It would be better if Klare had mentioned about the negative externalities arising from natural resource abundance. In addition to possible and potential Dutch Disease<sup>9</sup>, Russia also suffers from its dependence on abundant resources. That is to say, its economy is so fragile and vulnerable to oil and gas prices. Considering ... argument that global oil prices are set by oil stock market rather than actual oil supply, lower energy prices cost a lot to Russian economy and balance of payments work in negative for Russia.

In sum, this chapter is a very well descriptive and historical analysis of how Putin gained power and Russia turned to be a powerful player in global politics with the help of controlling energy resources. It is important to go through Putin's and Medvedev's dissertations in order to have a better understanding about the strategic importance of oil and gas resources for Russian economy and foreign policy.

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<sup>9</sup> After discovering a natural resource, high entrance of foreign currency increases the prices of that resource incredibly which in return makes the economy more dependent on that resource and no other sector could survive due to high profitability of resource. For further discussion, please see <http://www.imf.org/external/pubs/ft/fandd/2003/03/ebr.htm>