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# Russian Relations to the Gulf Region in a Changing Geopolitical Environment

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## Introduction

## A Basis for Russia-CIS Relations with the Gulf Region

Scholars of most academic disciplines across the social sciences have a fondness for comparing different regions in order to evaluate why one may be developing more rapidly than another, why democracy may be stalled in one region or flourishing in another, or why the benefits foreseen by economic reform have proven less conclusive in some regions when compared to others. Despite the array of comparative works, a close examination of relations between Russia, the former Soviet republics and the monarchies of the Arabian Gulf is a topic which has seldom received in-depth coverage in the comparative social studies discipline. This is largely due to the fact that the study of their relations would not have been possible in any meaningful manner until quite recently given that relations between the former Soviet Union and the Gulf practically did not exist until the end of the Cold War. This is, to some degree, a paradox given that the Eurasian states of the CIS have a well established record of political, economic and cultural links with the broader Middle East.

We should note from the outset that relations between the former Soviet republics, now often referred to as the Commonwealth of Independent States (CIS), and the Middle East have evolved on the basis of two general sets of factors: internal and external. From an internal perspective, it is evident that Muslims (numbering tens of millions), from predominantly Turkic, Farsi, Tatar

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nationality categories (as well as many smaller ethnic Muslim nationality categories) have settled in the CIS over a period of no less than five centuries. The Muslims of the present-day CIS countries, whose presence in these states has come about both as a result of conquest and voluntary incorporation into tsarist Russia, and later the Soviet Union, are inextricably linked due to their faith to the mainstream *Ummah*, or pan-Islamic community of Muslims. Islam's most important holy sites are found in the Middle East and provide notable spiritual significance for Muslims worldwide. Moreover, Muslims from the present-day CIS have historically viewed the region as a source of cultural inspiration.

From an external perspective, Russia has, for the past three centuries, been a leading European and later global power in international politics. Given the historically significant political-geography of the Middle Eastern region, its vital importance for international trade routes and linkages to some of the world's major waterways, it is only natural that the region would have figured centrally in Russian imperial and Soviet geopolitical planning.[2] However, it was the Soviet Union's Marxist-Leninist ideology-driven foreign policy of the Cold War period that brought Middle Eastern-USSR relations to what arguably became their historical apex. The Soviet Union's support of 'progressive' socialist Arab regimes during the Cold War – including Nasserite Egypt, Baathist Syria and Iraq, Libya and the (Democratic People's Republic of) Yemen – led to an enormous level of political and economic cooperation between the USSR and Middle Eastern region.

Despite these established links, concerted relations between Russia-CIS and the states of the Gulf Cooperation Council (GCC) – a political-economic bloc of countries established in 1981 which includes Saudi Arabia, Bahrain, the United Arab Emirates (UAE), Qatar, Kuwait and Oman – are a relatively new phenomenon. Formal political relations between Russia and the majority of the Gulf monarchies were only established during the late 1980s and start of the 1990s, when Moscow was still the capital of the Soviet Union. Although the Soviet Union was an active player in the politics of the Arabian Peninsula as early as the 1920s, and Moscow even welcomed an official visit from then Crown Prince Faisal bin Abdul Aziz of Saudi Arabia in 1932, the onset of war in Europe brought an end to Soviet-Gulf relations of the period.

During the Cold War, while some positive diplomatic exchanges took place between Moscow and Riyadh during the 1950s, conflicting ideologies (Communism and Wahhabi Islam) and the closure of ranks among rival Arab camps (pro-Western and Soviet-backed) during the height of the Cold War created a gulf in the Soviet Union's diplomatic relations with Saudi Arabia and the

2 For a more elaborate discussion of the significance of the political geography of the Middle East in Russian and Soviet geopolitical planning, the reader is referred to a number of articles by Andrej Kreutz, including "The Geopolitics of post-Soviet Russia and the Middle East," *Arab Studies Quarterly* (Winter 2002); and "Russia and the Arabian Peninsula," *Journal of Military and Strategic Studies,* (2004).

newly independent monarchies of the Arabian Gulf. The Soviet Union became even further distanced from the GCC states during the 1980s, primarily as a result of Moscow's war in Afghanistan and Saudi Arabia's financing of Afghan insurgents fighting against the Soviet occupation of their country.

## The Impact of a Changing Global Political Environment

The changing international environment of post-Cold War international relations, however, is bringing the GCC bloc, Russia and the successor states of the Soviet Union closer together. Contemporary international relations are no longer dominated by the Cold War-era bipolar rivalries of two superpowers and their client states in the developing world. Although the US has retained the status of a superpower, new centers of economic and political power are emerging, and in some cases re-emerging. In the old world, Europe, the expanded European Union (EU) now includes 27 member countries and further enlargement of the bloc is likely in the medium term future. The EU bloc, which is increasingly based on a single currency, unified legislation for an internal market and a common approach to external relations, is one of the world's largest economies and – by its own convictions – 'smart powers' seeking to exert influence on the global arena.[3]

One of EU's main partners – as well as competitors – in the international arena is Russia, which has been recovering rather remarkably since its early post-Soviet crisis-stricken economic downturn in the 1990s. Although present-day Russia has yet to recapture the international standing it held under the Soviet umbrella, its recent economic and political recovery makes it an actor that cannot be ignored. Russia joins a number of non-Organization of Economic Cooperation and Development (OECD) countries which have been emerging as new centers of economic power since the end of the Cold War. Included in this category of countries now referred to as BRICS are the likes of Brazil, (Russia), India and China, and it is being widely suggested that the BRICS economies are likely to outgrow OECD economies in GDP size during the medium term. As is the case with Russia, these countries can no longer be ignored as newly arrived protagonists in the international arena, which is reflected in their being

[3] The idea of the EU as a 'smart power' (as opposed to a 'great' or 'super' power) was developed by European Commissioner for External Relations and European Neighborhood Policy, Benita Ferrero-Waldner, in a lecture entitled "Global Europe: What Next for EU Foreign Policy," in Brussels, July 11, 2008. The concept aims to provide a more definitive reflection of the EU bloc's current standing in the international arena with respect to other prominent powers.

invited to participate in recent G-8 summits of the world's most advanced industrial powers.[4]

The GCC is another power center brimming with new-found confidence. Needless to say, with the oil price fluctuating between $130-$140 per barrel at the time of writing and with energy demand continuing to rise fuelled by the dynamic growth of BRIC economies, the Gulf States are consolidating into an enormous source of economic and financial power. This is unlikely to change in the short-to-medium term, even in the event of a sharp cyclical decline in the oil price which could impact upon global demand and fuel a broader economic downturn. Furthermore, it should be noted that although the Gulf will continue to maintain its strategic alliance with the West, the GCC is increasingly turning to the countries of the BRICS as well as to Japan and the East Asian tiger economies as it seeks to diversify its economic and political relations.

The rapid pace of development which many of the new centers of power are undergoing, and which is taking place within the framework of increased globalization of the international economy, is ensuring greater connectivity and emergence of new partnerships for which there was very little scope until recently. Competition for influence, market share and access to finite resources in many of the world's emerging regions is fostering geopolitical rivalries of a very different type to that which existed during the Cold War. Further, amidst the new alliances, countries are forced to work together when facing universal challenges such as the threat of global recession, increasing prices for food and other key commodities, the soaring oil price and concerns over global energy security, climate change, international terrorism or nuclear safety.

Within this fundamentally restructured international political order which continues to evolve, a number of key political, cultural and economic developments have taken place since the end of the Cold War. This, in turn, has resulted in the emergence of a new set of dynamics that are driving global players such as Russia, the CIS and the GCC states towards new levels of international engagement.

## Political Dynamics

From a political angle, salient international crises have altered the dynamics of international relations and provided substantial scope for Russia and the GCC states to construct new political ties. These events include: the war to liberate Kuwait from Iraqi occupation during 1990-1991; Russia's wars in Chechnya during the 1990s; the September 11, 2001 terrorist attacks in the US; and the US-led invasion of Iraq in 2003. Moscow's firm stance against Iraqi

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4 India and China were both active participants in the G-8 Hokkaido Summit in Japan in July 2008. Russia was invited to hold the rotational presidency of the G-8 in 2006 and hosted the St.Petersburg G-8 Summit in July of that year.

aggression towards Kuwait in 1990, for example, and its decision to join the allied coalition to liberate Kuwait – despite the Soviet Union's longstanding alliance with Baghdad – were warmly greeted by the GCC and facilitated the establishment of formal relations between the USSR and Saudi Arabia. Such moves also won Moscow voluminous financial aid from the Gulf monarchies and brought with it substantial expectation of further capital inflow to the Soviet Union from the Gulf.

The rapprochement between Moscow and the Gulf States that ensued after the Gulf War did not, however, facilitate the degree of constructive economic and political cooperation that Moscow would have liked. Furthermore, while the war in Afghanistan had ended and Saudi Arabia was no longer sponsoring Islamic insurgents against Russia, Moscow remained suspicious of non-governmental Gulf-based charities and other forms of support from the region extended to Chechen separatists resisting Moscow's authority. However, as US-Saudi relations reached an all-time low following the 9/11 acts of terrorism, and much of the Arab world became increasingly disenchanted with Anglo-American aggression towards Iraq during 2003, further rapprochement between Russia and the Gulf took place.

The official visit of Saudi Arabia's then Crown Prince Abdullah bin Abdul Aziz al-Saud to Moscow in September 2003 convinced some analysts that Russia's strategic interests were becoming closer with those of the Saudi Kingdom and other GCC states.[5] A new round of constructive diplomatic and commercial relations between Russia and the Gulf has emerged since. Closer ties between Russia and the GCC are now evident and were recently underscored by former Russian President Vladimir Putin's inaugural tour of Saudi Arabia, Qatar and Jordan in February 2007, and King Abdullah's first visit to Moscow as the Saudi monarch in November of the same year.[6]

## Cultural Trends

From a cultural angle, there has been a major revival of Islam in many territories of the former Soviet Union, a trend which started to emerge as greater political liberalization and freedom of expression took root during the Gorbachev reforms in the second half of the 1980s. The Islamic revival accelerated rapidly in the nominally Muslim regions of the Russian Federation and the newly established titular Muslim republics of Central Asia and the Caspian during the 1990s. It was marked by the establishment of thousands of new mosques, which opened their doors to those ex-Soviet Muslims who wanted

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5 Marat Terterov, *Gulf Cooperation Council Relations with the Commonwealth of Independent States* (Dubai: Gulf Research Center, 2005), 13.

6 Mark Smith, *Russia and the Persian Gulf: The Deepening of Moscow's Middle East Policy* (Conflict Studies Research Centre, Defence Academy of the United Kingdom, August 2007).

to rediscover Islam now that comparative religious freedoms were introduced by the authorities. Equally important was the opening of Islamic schools and extensive distribution of various types of Islamic literature in order to make knowledge of Islam more widespread in the CIS's Muslim regions.

From the outset, the Gulf had backed the ex-Soviet Islamic revival by providing both finance and moral support to assist the spread of Islam in the previously atheist territories of the former USSR, be it through the donation of hundreds of thousands of copies of the Qur'an, funding Islamic missionaries who came to the region to propagate Islam or sponsoring CIS-Muslim pilgrims for their once-in-a-lifetime *Hajj* to Mecca. During the 1990s, largely cash strapped CIS governments welcomed the influx of financial aid from the wealthy patrons in the Gulf as a form of spiritual support in the name of Islamic solidarity. However, funding from the Gulf for the CIS Islamic revival has also been met with scepticism given the links that some claim have emerged between Islamic foreign aid of this nature and the spread of Islamic fundamentalism in the former Soviet Union.

During the 1990s and the first years of the present decade, this issue complicated relations between Russia, Saudi Arabia and some of the GCC states, particularly with respect to the ongoing separatist conflict in Chechnya. It was widely perceived by the Russian authorities that Chechen Islamist militants were being financed by Gulf-based sources, while many in the Gulf resented the brutal manner in which the Russian military dealt with the Chechen guerrillas. Diplomatic relations between Russia and the Gulf States improved more recently, when the latter largely recognized the Chechen crisis as an internal Russian affair to be settled by the domestic legislation of the Russian Federation.

## Economic Developments

During the Cold War period, the Soviet Union's economic relations were oriented primarily – although by no means exclusively – towards trade with its satellites in Eastern Europe and client states in the developing world. The situation is quite different today as the CIS states are highly integrated into the global economy. Governments in the CIS states encourage trade and investment linkages with all relevant international partners and actively participate in many international economic institutions. A number of CIS states have entered the World Trade Organization, and are members of multilateral agreements regulating trade and investment in particular economic sectors, and observe numerous key bilateral economic partnerships. Russian and CIS foreign policies are increasingly driven by economic objectives, supporting their national corporations in winning market share and developing new business opportunities. Furthermore, Russia and virtually all CIS economies have largely overcome their economic crises of the 1990s, and their economies have been growing impressively for close to a decade.

As a result, Russia and other CIS countries are increasingly seen as attractive emerging markets in which to invest, particularly due to their huge potential in bringing an abundance of raw materials to the international markets. In terms of CIS-GCC relations, while these developments have not brought with them an influx of new trade turnover and investment flows between the CIS and GCC regions, Russia-CIS and the Gulf are now established as the world's primary energy-producing regions. While Saudi Arabia remains the world's largest oil producer and exporter, Russia is arguably an even more significant energy producer if oil and gas production are taken together.

In the wake of the September 11 terrorist attacks in the US, the ensuing low point in US-Saudi relations, and the anti-regime terrorist attacks in Saudi Arabia, some voices questioned the political viability of Saudi-Middle East oil supplies. Arguments were made in favor of Russian-CIS oil supplies as a possible, politically viable alternative. These arguments have since receded and most industry experts now would agree that Russian-CIS oil supplies will work to complement Middle East (OPEC) oil supplies in meeting increasing global demand into the foreseeable future. Cooperation in the sphere of energy between Russia and the Gulf has expanded notably against the backdrop of these events.

There are two primary reasons underpinning closer energy ties between Saudi Arabia and Russia in particular, and the CIS and the Gulf broadly speaking. The first is at the business level, where National Oil Companies (NOCs) from the BRIC countries, largely motivated by commercial factors, have been forging closer alliances with one another. Spectacularly high oil prices have led to unprecedented revenues being generated by the Saudi and Russian governments, which has, in turn, led to several Russo-Saudi joint venture energy projects. An example is LUKSAR, a joint venture between Saudi ARAMCO and Russia's Lukoil, an entity formed to develop a concession for the exploration and development of hydrocarbons in the Rub Al-Khali desert in Saudi Arabia.[7] The Russian and Saudi partners have also discussed the possibility of channeling joint investments into new downstream projects in third countries.

The second area of increased Russia-Gulf cooperation is at the level of market stabilization, particularly in the area of greater initiatives aimed at coordinating the price of energy. Russia, a number of the CIS states in the Caspian and Central Asia, most of the countries of the broader Gulf (including Iran and Iraq) are all major producers and exporters of energy. In the present phase of high oil prices, securing an affordable and reliable source of energy has become a strategic priority for many countries dependent on imported energy

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7 Marat Terterov, "Commonwealth of Independent States Relations with the Gulf Region," in *Gulf Yearbook 2005-06* (Dubai: GRC 2006), 326.

supplies. Furthermore, the need to balance out the interests of energy producers and consumers is vital if energy security is to be attained on both supply and demand sides.

This has led to closer relations between Russia-CIS and the Gulf and initiatives are being taken to work closer together under the umbrella of international energy organizations, where producer interests can be taken into account on the one hand, and consumer-producer interests can be balanced out on the other. Russia has, for example, been in closer contact with Qatar (together with other Middle Eastern gas producers such as Iran, Libya and Algeria) in an effort to coordinate the price for natural gas. It has used the Gas Exporting Countries Forum (GECF) as a means of discussing natural gas prices with other gas-producing states. This has sparked a debate about whether Russia is seeking to lead a cartel of gas-producing countries. We should note that Russia has also suggested that the Gulf States and other OPEC members join the Energy Charter Treaty, a multilateral agreement governing trade and investment in the energy sector, which Russia feels is balanced towards the interests of consumer countries.[8]

## Can Geopolitical Power Shifts and the Rise of New Actors be Ignored?

Clearly, within this evolving post-Cold War geopolitical order, there is greater scope for its new protagonists to cooperate more closely in a number of inter-related areas. These protagonists in the international arena, including a rejuvenated Russia and a GCC bloc awash with petrodollars, are clearly starting to notice the benefits of such cooperation, of which increased volumes of trade and investment, coordination of energy pricing, or collaboration in the fight against international terrorism are just a few possibilities. Furthermore, their new partnerships are underscored by the reassurance which has come from geo-political power shifts, which, for the most part, have been moving in their favor. Some of the key trends reflecting shifting geo-political power in contemporary international relations will be briefly introduced below.

The first is a near decade of high GDP growth in non-OECD economies. While OECD economies continue to grow steadily, much of the cumulative growth being experienced by the global economy has, in recent years, been contributed by the countries of the BRICS and other similar emerging markets. In Russia, while the 1990s will forever be remembered as the decade of economic downturn and for the hard years of transition from state to market, the recent turnaround in Russia's economic fortunes has been remarkable. Russian GDP has grown by an average of 7 percent annually since the time of the country's

[8] Statements made by the Russian delegation at a working group meeting of the Energy Charter Process in Brussels, June 12, 2008.

financial crisis in August 1998.[9] Russian GDP represented around 80 percent of Germany's GDP in purchasing power parity in 2007.[10] Many of the other CIS states have been growing no less impressively than Russia, and although the region's relations with the OECD are still plagued by the psychological burden of a considerable 'catch up syndrome,' the CIS has clearly turned around from its economic malaise of the 1990s.

Russia, for its part, is now once again one of the world's ten largest economies and although it lags behind other BRIC countries such as China and India (the world's second and fourth largest economies, respectively), Russia today is arguably a different country.[11]

In parallel to CIS GDP growth, the economies of the GCC countries have also been growing impressively. While the current boom is not an altogether new experience in the Gulf, capital is not moving out of the GCC to the extent that it did in previous booms.[12] Although the GCC states are traditionally a net exporter of capital due to the inability of the domestic economy to absorb the sheer volume of capital being generated by export revenues, more money is now being retained within the region. Preference for domestic and regional investment is evident, and GCC governments are advocating a more prudent approach to their spending than during previous booms.[13]

There is little doubt that the main driver for the improved economic performance of non-OECD regions such as the CIS and the GCC is the high oil price, together with high world prices for other commodities. Both regions include countries ranking among the world's primary producers of oil and gas. During the 1990s, oil hit a record low price of $9 p/b.[14] In May 2008, it fluctuated between $130-$140 p/b. In 2005, the GCC countries collectively earned approximately $270 billion in oil sales.[15] In 2007, they earned $381 billion from sales (exports) of oil and a further $26 billion from gas.[16] Russia has earned hundreds of billions of dollars in oil and gas sales in the present decade. An overly substantial part of the revenues generated by energy producers in the

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9 CIA World Factbook, Internet Pages on Russia, last updated October 2008. See https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html

10 Lucio Vinhas de Souza, *A Different Country: Russia's Economic Resurgence* (Brussels: Centre for European Policy Studies, 2007), i.

11 Ibid. Vinhas de Souza's referral to Russia as a 'different country' is, as the author himself states, a play on the words contained in the titles of other academic papers on Russia, including Shleifer and Treisman (2005), "A Normal Country: Russia after Communism" or Rosefielde (2005), "Russia: An Abnormal Country." On India and China as some of the world's leading economies, see: International Energy Agency, *World Energy Outlook 2007: China and India Insights*, IEA, Paris, 243 and 425.

12 Emilie Rutledge, "GCC Economic Performance in 2005," (Dubai: GRC, 2006), 109.

13 Ibid.

14 "The Rise of the Gulf," in *The Economist*, April 26-May 2, 2008, 15.

15 Emilie Rutledge, op.cit, 112.

16 "Briefing: Gulf Economies," in *The Economist*, April 26-May 2, 2008, 35.

CIS and GCC countries has been accrued by the state, where governments have chosen to set up a dedicated fund to manage persistently high oil revenues.

Russia established an Oil Stabilization Fund (OSF) in 2004, and other CIS energy producers such as Kazakhstan and Azerbaijan also established their own funds. Russia's OSF is reported to have accumulated $157 billion in oil proceeds, with other CIS funds capitalized at substantially smaller levels.[17] The CIS oil funds are comparatively new vehicles for the recycling of petrodollars, as there are 40 or so sovereign wealth funds worldwide with a total of $2.5 trillion under management, the most prominent of which have long been operational in the Gulf. Given the peak levels which CIS and GCC sovereign wealth funds are reaching, it is now apparent that these countries have accumulated sufficient public revenues allowing them to more adequately respond to domestic defaults or global economic shocks than was the case in the 1990s. In contrast to that period, when Russia and the CIS were in debt to a variety of international creditors, their financial ministries are now posed with the problem of how to adequately manage excessive public wealth.[18] This is a major turnaround from the CIS region's defaulting economies of the 1990s.

Another key trend reflecting the geopolitical power shifts in favor of new protagonists in the international arena is the recovery in Russian oil output since the 1990s and the extra production capacity this has been providing to the international oil markets.[19] Russian oil companies have increased production from some 6 million barrels per day (mp/d) in 1998 to some 9.7 mp/d at present. Russia's oil exports have increased from 2.5 mp/d to 4.5 mp/d during the same period. Although the Saudi-led OPEC structure is set to remain the 'central bank' of the world oil market into the future, Russian and CIS oil producers have asserted their position as a key source of supply. At the same time, Russia has elevated itself to the position of the primary supplier of energy to the European Union, providing the EU with 25 percent of its natural gas

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17 Andrew Kramer, "Awash in Oil Income, Russia Forms Wealth Fund," *New York Times News Service*, February 1, 2008.

18 Russia repaid its last tranche of debt to the Paris Club in 2006, has accumulated the world's third largest hard currency reserves nearing $300 billion, and has itself now become a creditor to many international organizations. See "Oil Income Helps Russia Pay off Entire Debt to Paris Club" in the *International Herald Tribune*, August 22, 2006.

19 See the article by Edward L Morse and James Richard, "The Battle for Energy Dominance" in *Foreign Affairs* 81 (March-April 2002) which helped bring to attention the sharp rise in output of Russian oil production from 1998-2002. The authors argued at the time that "the threat of a northern oil boom which Middle Eastern producers first feared in the 1990s had become a reality" and that if the plans of Russian and CIS oil companies come to reality, total CIS oil exports could equal to those of Saudi Arabia within four years (ie by 2006). During 2008, the battle for energy dominance which the authors described has been left in the shadow of spiraling oil prices which neither additional Russian/CIS or Saudi production capacity has been able to prevent.

consumption.[20] Demand for gas within the import-dependent EU is rising, and Europe is continuously seeking to diversify its sources of supply in order to enhance its energy security. Russia, however, is supporting the establishment of new oil and gas export pipeline routes aimed to ensure that it maintains a dominant position in the EU natural gas market.

A by-product of the high energy price environment has been the rise of national energy champions in non-OECD countries, which have attained positions of market dominance with respect to key indicators such as market capital, volume of production and access to reserves. Incumbent national champions in the Gulf, including Saudi ARAMCO and the Abu Dhabi National Oil Company (ADNOC), have in recent years been joined by Russia's Gazprom, Lukoil and Rosneft as market leaders in terms of oil output and access to scarce global hydrocarbon deposits. Although Saudi ARAMCO is the world's largest energy company by market capital, in 2006, Gazprom overtook Royal Dutch Shell to become the world's second largest public energy company if measured by the same indicator. Other national champions are emerging in the CIS, including Kazakhstan's KazMunaiGas and Azerbaijan's SOCAR. The strengthened market position of the state-controlled energy companies from non-OECD states is closely linked to the high growth rates in these countries and reflects one of the most evident shifts in geopolitical power in favor of the new protagonists.

A recent study measuring the shift in power in global energy markets revealed that seven major state-controlled energy corporations from non-OECD countries (Saudi ARAMCO, Gazprom, Venezuela's PDVSA, China's CNPC, Iran's NIOC, Petrobras of Brazil and Petronas of Malaysia) presently control over 30 percent of global oil and gas production and over 30 percent of reserves.[21] This is in contrast to the original seven (now four) sisters, or OECD-based international oil companies (IOCs) which have dominated global energy markets since World War II (ie Exxonmobil, BP, Chevron, Shell), which now control just 10 percent of global production and 3 percent of reserves.[22] Recent reciprocal visits by heads of states from Russia and the Gulf signal each side's recognition of their leading position in the international energy markets, while contemplation of further price collusion between energy suppliers (particularly in the gas industry) is heightening energy security concerns in OECD consumer countries, especially within the EU bloc.

Russia's unfolding energy strategy has drawn considerable international attention in parallel to these trends. Some of its more alarming components have included vigorous policies of "energy nationalism," where the Russian state has

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[20] Commission of the European Communities, "Green Paper: A European Strategy for Sustainable, Competitive and Secure Energy," Brussels, March 2006, Annex to the Green Paper (What is at Stake: Background Document), 24.

[21] See the article, "The New Seven Sisters: Oil and Gas Giants that Dwarf the West's Top Producers," *Financial Times*, March 12, 2007

[22] Ibid.

expropriated both foreign and domestic private sector investments in the Russian energy sector, or implemented occasional disruptions of energy supplies to key transit states such as Ukraine, with corresponding knock-on effects for European consumers.[23] Russia, for its part, has sought to portray itself as the guardian of European energy security – despite the reservations such strategies have caused over Russia's reliability as an energy supplier. Although the concept of energy security has traditionally applied to the prospect of disruption in oil supplies from the Middle East, the situation has now changed drastically and European consumers of natural gas have, in particular, become highly sensitive to the actions of Russia's Gazprom, as these have notable bearing on their security of supply.

Furthermore, the fact that the majority of the world's recoverable energy reserves are now controlled by national champions outside of OECD jurisdiction further underscores a shift in power in global energy markets to countries where governance issues, policy priorities and national strategies are not always in accordance with the expectations of consumers. Despite the fact that non-OECD national champions publicly endorse internationally recognized standards of corporate governance, the rise to market dominance of new national champions such as Gazprom has come in parallel to EU-Russia energy relations shifting from a factor of cooperation to a factor of tension.[24]

Finally, discussions of geopolitical power shifts should also take into account that much of the Russian strategy of enhancing its role as a guarantor of energy security is premised on Moscow's priority of re-asserting its political influence in CIS space. This includes concerted efforts to maintain pressure over the CIS countries now often referred to as energy transit states (such as Ukraine and Belarus), as well as CIS energy producers in Central Asia and the Caspian (notably Turkmenistan, Kazakhstan, Uzbekistan and Azerbaijan). Russia's policy towards these countries has included seeking to acquire controlling stakes in energy transit infrastructure in Belarus, commissioning transit-avoidance gas pipeline projects, raising the price for gas supplied to CIS neighbors to market levels and snapping up all available gas production

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23 The most flagrant examples of what some analysts refer to as energy nationalism, in the Russian case applies to the Russian state expropriating the main production assets of YUKOS, Russia's largest private sector oil company, and redistributing these to state oil companies during 2003-05; and the Russian national champion, Gazprom, taking a controlling stake in the giant Sakhalin-II gas project from a consortium of foreign investors led by Royal Dutch Shell in late 2006. Russia has, on three recent occasions, disrupted its gas supplies to Ukraine: in January 2006, March 2008, and January 2009. Although Russia resumed its gas supplies to Ukraine within a matter of days on each occasion, this led to some reservations over Russia's reliability as a source of the gas supply within European policy making circles since the great majority of Russian gas exports to Europe transit through Ukraine.

24 Thomas Gomart, "EU-Russia Relations: Towards a Way Out of Depression," Center for Strategic and International Studies, Washington D.C., July 2008, 10.

in Central Asia and the Caspian to ensure that it feeds into the Russian energy transport network and is then re-exported to international markets.

Moscow's foreign policy in its near abroad has opened the way for substantial Russian capital investment into the CIS, allowing Russian energy (and other) companies to acquire strategic assets and establish joint ventures with local partners in the region. Russia's efforts at continued re-assertion of political influence in the CIS has also been accompanied by expanding military ties between Moscow and the Central Asian states, which has been taking place at the bilateral level as well as through Russia-sponsored multilateral arrangements such as the Shanghai Cooperation Organization (SCO).

IOCs, supported by OECD governments, were active in the Caspian and Central Asia during the 1990s, when, during Russia's relative weakness both politically and institutionally, the race to control Caspian energy resources accelerated. While competition for influence in the Caucasus, the Caspian and Central Asia between the US, the EU, Russia as well as China remains high, lack of progress on political liberalization coupled with human rights concerns in a number of the regional states has provided Russia with greater scope to recapture some of the lost geopolitical ground of the 1990s. Taking into account that advancement of the country's energy economy constitutes a major objective in Russia's new foreign policy, it is unlikely that Moscow will show any signs of willingness to surrender its recent gains at any time soon.