The Dog Barks but the Caravan Moves On

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Abstract: With the revenue from Russia's oil exports, Russia has moved from its near-bankrupt status after the August 1998 financial collapse to a situation where it is now a financial powerhouse. Although revenue from natural gas exports is not as large, Russia's natural gas pipelines into Europe bring Russia immense political clout. Putin has used Russia's oil and gas skillfully so that the country is once again a superpower—emphasis on *power*.

Keywords: Gazprom, ITERA, natural gas, petroleum, Putin, Russia

When asked at his January 31, 2006, press conference how he responded to calls by U.S. Senator John McCain and Congressman Tom Lantos to kick Russia out of the G-8, Russian President Vladimir Putin quoted an old Arabic proverb: "The dog barks but the caravan moves on." This was Putin's way of saying, "Who cares if some American senator thinks Russia is not up to the standards of the world's richest democracies. Russia will do as it pleases and there is not much anyone can do about it. They need Russia more than we need them."

This was very different from what Boris Yeltsin used to say when he was president and, for that matter, how Putin would probably have responded to the same question during his first term. More than anything, this new assertiveness is a result of oil at $70 a barrel and the fact that Russia is the world's largest exporter of natural gas and the world's second largest exporter of petroleum.

Considering the context, this new hubris might seem overly presumptive. Russia's GDP is growing at 6–7 percent per year—primarily because of growth in the energy and metals sector rather than manufacturing, which is lagging. Russia's per capita income is still less than Portugal's, and its army is bogged down in misadventures in Chechnya and by public revulsion at a scandal highlighting army hazing and brutalizing of draftees. But today, with oil and natural gas prices at record highs, abundant energy reserves count for more than per capita income and, like Venezuela, Russia is learning how to leverage those resources.

I

Russia's transformation from impoverished supplicant in the 1990s to haughty creditor today has been breathtaking. Less than a decade ago, in August 1998, because of its

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weakened economy and ever-increasing deficit, Russia was forced to default on its state loans, which in turn precipitated the collapse of most of its private banks. Russia's foreign reserves all but disappeared and its RTS index of stock (the Russian equivalent of the Dow Jones index) fell to 39 from a high the year before of 571. In July 2007, fewer than ten years later, the RTS index hit a new high of 2,091, a fifty-one-fold increase. Export volume rose from $71 billion in 1998 to $275 billion in 2006, most of which was generated by oil and gas earnings. Moreover, with export earnings in 2006 almost double the spending on imports, Russia had a $130 billion trade surplus. When added to reserves accumulated from previous years, Russian gold and foreign currency reserves hit $420 billion in August 2007. This is in addition to another $120 billion or so set aside from oil export tax revenue as a stabilization fund intended to reduce inflationary pressure.[1] Russia's gold and currency reserves are now the third largest in the world, although still far below China's $1 trillion.

But the geographic location of Russia's oil and gas, particularly its gas, is even more important than the actual amount of its dollar, euro, and gold hoard. Although Russia's petroleum reserves are not as large and are often in locations with extreme temperatures, Russia's land access adjacent to Western Europe and its natural gas pipelines in particular put it in a much more strategic position than Saudi Arabia, whose influence arises almost exclusively from its oil. Still, in January 2006 Russia actually produced more crude oil than Saudi Arabia. Moreover, Russia was the source of up to 40 percent of the increase in world oil output between 2000 and 2005.[2]

But it is Russia's natural gas that is its most powerful lever because most of the world's access to natural gas is more restrictive than its access to petroleum. Oil can be delivered in a variety of ways: pipeline, tanker, railroad, or truck. By contrast, consumers of natural gas are predominantly dependent on delivery through a pipeline network. True, natural gas can be liquefied and shipped by specially designed ships to facilities that de-liquefy it and put it back into a pipeline or canisters of compressed gas. But it is an expensive procedure. For the most part, natural gas users are heavily dependent on pipelines, which are capital intensive and expensive. Consequently, it would be financially unrealistic to build and finance a second duplicate standby pipeline from another source. Liquefied natural gas (LNG) facilities can provide some relief, but as a standby facility this too is prohibitively expensive. In sum, consumers of natural gas tend to become much more dependent on a single supplier—who, in effect, becomes a monopolist—than consumers of petroleum. (For some, this is hardly much of a consolation since, as the world discovered in 1973, if they want, the several producers who belong to OPEC have the ability to organize a coordinated embargo against oil consumers that can have profound economic and political consequences.)

Nonetheless, although it takes a coordinated effort to intimidate oil consumers, because of the monopoly that is inherent in the gas pipeline delivery system, a single supplier can create the same amount of havoc among gas consumers. Gazprom did that in January 2006 when it reduced the supply of gas to Ukraine. This monopoly or near-monopoly control is potentially disruptive even if abundant supplies of alternative forms of energy are available. Such an embargo can be an especially powerful weapon, as the Ukrainians discovered, if exercised in the cold of January when worldwide demand for energy is usually at its peak and standby sources of energy are limited or unavailable.

II

Given the enormous disruption caused by its natural gas embargo, why did Russia not take advantage of such a weapon sooner? In fact, it often has. But previous Soviet or Russian embargos did not affect Western Europe directly and therefore did not attract much attention and condemnation and were forgotten sooner. For example, the Soviet Union suspended petroleum shipments to Yugoslavia when Tito became uppity in April 1948, to Israel in 1956 after the Sinai invasion, and to China in 1967 after the Sino-Soviet split. More recently, Russian officials cut off the flow of gas to Belarus in 2004 and on several earlier occasions to Ukraine (1992 and twice in 1993), Moldova, and Georgia. For the most part, these gas customers had overdue delivery bills owed to Russia. Russia has also used gas cutoffs to force an increase in gas prices. On occasion, however, Russia has used threats of gas and oil embargos as a form of political blackmail, as it did when it cut off petroleum supplies to Lithuania and Estonia in 2007. There were also times when the unusually cold weather necessitated more gas consumption within Russia itself. On these occasions, east and west European consumers at the end of the Ukrainian and Belarus pipelines were, of necessity, similarly affected.[3]

Few such instances occurred in the early years after the collapse of the Soviet Union because both Russia and Gazprom were incapable of taking such aggressive measures. Then, global and Russian energy supplies were not as tight and prices were considerably below current levels. Moreover, for all intents and purposes Russia was insolvent at the time. As for Gazprom, it was often worried more about survival than political posturing. Gazprom and many of the other Russian petroleum companies had been newly privatized and their new owners were busy stripping off whatever they could and shipping those assets out of the country. Additionally, there were many non-Russian suppliers of both gas and oil, including suppliers of gas from the nearby North Sea, who were eager and ready to cater to Western Europe's needs. With energy prices so low and alternative suppliers so abundant, threats by Russian suppliers would not have been taken seriously, at least by non-CIS countries.

III

While it has always been one of Russia's most powerful economic entities, Gazprom in the Yeltsin years was not the aggressive state-controlled company that it has subsequently become. Under Yeltsin, the state owned only 38.37 percent of the stock. While this made the state the largest stockholder, it would have been difficult to argue that in the 1990s Gazprom was doing much to promote Russia's interests. On the contrary, Rem Vyakhirev, its CEO, treated Gazprom as if it were his own personal—not the state's—property. Government officials under Yeltsin sat by without apparent concern as Gazprom not only failed to pay much in the way of dividends to its owners (including the state) but also paid little if any of the taxes it owed. As a result, the state had little to show for its ownership of Gazprom. The public at large may have benefited from the fact that Gazprom's prices for its gas were held far below the market price (a form of subsidy), but most of the benefits went to Gazprom's management, their families, and friends.

Vyakhirev shamelessly stripped Gazprom of some of its most valuable properties and transferred them into holdings controlled by him, his predecessor Viktor Chernomyrdin, other senior management associates, and their various children, wives, and mistresses. A prime example was Iterra, a company with headquarters in Jacksonville, Florida, that, with the considerable help of Gazprom officials, became the number two producer of natural gas in Russia. Its owners hid behind a trust widely assumed to consist of the relatives of those same senior Gazprom officials.

There was little evidence to suggest that President Yeltsin at the time concerned himself in any significant way with Vyakhirev's internal dealing. It was only in 2000, after Vladimir Putin succeeded Yeltsin as president, that Vyakhirev and Gazprom were subjected to any meaningful state pressure and forced to share more of the company's wealth and profits with its other owners, including the state. It is not surprising that one of Putin's first decisions was to remove Viktor Chernomyrdin as chairman and replace him with Dmitry Medvedev, a Putin ally from St. Petersburg. Vyakhirev was similarly removed as CEO when his term expired on May 31, 2001. Aleksei Miller, another Putin ally from St. Petersburg, succeeded him. Almost immediately Gazprom began to pay more taxes and dividends.[4] Putin also sought to ensure that no private owner would ever be in a position to assume majority control. He instituted a series of steps (not all of which succeeded) whereby the state ended up with more than 50 percent ownership of Gazprom's stock. At the same time, Miller sought to reclaim some of the assets previously stripped off by Vyakhirev.

After the state regained majority control, it began to use Gazprom for political and commercial purposes. Such efforts became more consequential as energy prices recovered from their 1998 lows. These higher prices were due in part to the growing demand for petroleum in China and India (higher petroleum prices also mean higher gas prices) and in part to the gradual depletion of the natural gas deposits in the North Sea, the main supplier of gas to the European Union.

Together, the higher price of energy and the more responsive and accommodating management at Gazprom provided Russia with new and more effective instruments of state power. A carefully thought-out strategy by Gazprom and Russian government officials enhanced these powers. When Gazprom customers such as Belarus, Ukraine, Georgia, Moldova, and Armenia, for example, fell into arrears because of their failure to pay for past deliveries, Gazprom offered to cancel such debts in exchange for the transfer of ownership of the domestic gas pipeline within each of these countries to Gazprom. These pipelines were part of the original gas distribution network, built by the Ministry of Natural Gas during the Soviet era before the privatization and transformation of the ministry into Gazprom. With its growing wealth, Gazprom began to seek similar or at least partial control of pipeline and distribution systems throughout Western Europe, particularly in Germany but even in England, where Gazprom was still nothing more than a token supplier of LNG. From all appearances, Gazprom appears to be seeking control (in some cases some would say a stranglehold) over the entire east and west European gas distribution network.

Gazprom negotiators have clearly given careful thought to their pipeline strategy. They are trying their best to limit potential competition, especially from Central Asia and Iran, while at the same time undertaking to build a pipeline under the Baltic Sea called the North European Gas Pipeline (NEGP), which would link Russia directly to Germany. Once the NEGP is up and operating, intervening countries such as Ukraine, Belarus, and Poland, which presently serve as intermediaries, will no longer be in a position to threaten to disrupt the flow of gas to Western Europe (or siphon it off). While this new bypass pipeline will deter transit countries from squeezing Russia, Russia will face no similar restraint on how it dictates prices to gas producers—Turkmenistan, Uzbekistan, and Kazakhstan—who supply Gazprom from Central Asia. Because it controls the main gas trunklines from Central Asia to the west, Gazprom has for some years refused to pay Turkmenistan anything resembling the world market price for the gas that Gazprom buys from it and resells to both east and west Europe. In the spring of 2006, Gazprom sought to assure itself of a similar stranglehold over gas exports from Iran to the west by pressuring Armenia to cede control of the gas pipeline that links it with Iran and which in the past has been used to send Iranian gas on to the west.

Easy access to energy in the current economic and political climate guarantees Russia enormous influence and power. Few independent gas distribution companies and countries can resist when Putin and Gazprom make them an offer. As a rare exception, after a personal meeting with President Vladimir Putin, Don Evans, a former oil executive and the first secretary of commerce under George W. Bush, eventually rejected an offer from Putin to take over the lucrative post of chairman of the Board of Directors of Rosneft, the state-owned company that in December 2004 seized control and devoured the most productive parts of Yukos from Mikhail Khodorkovsky. However, Evans decision came only after widespread criticism of the likely conflict of interest such a post would sooner or later create.

The more typical and notorious example of how tempting offers from Gazprom can be concerns Gerhard Schroeder, the former chancellor and prime minister of Germany. He was one of the first leaders to bond with Putin, facilitated in part by Putin's earlier KGB assignment in Germany and his fluency in German. In seeking to provide Germany with secure supplies of energy, Schroeder sought a complementary, and what he evidently thought to be a more reliable, alternative to supplies from the Middle East. Related to such a search was his concern about the safety of nuclear energy. Such thinking led him to become an advocate of greater reliance on Russia as a supplier. The fact that Russia could deliver both its oil and its gas via overland pipelines was also an important inducement, something the Middle East could not duplicate. Confident of Russia's reliability, Schroeder implemented policies that called not only for reduced imports of energy supplies from the Middle East but a phase out of German-generated nuclear energy by 2021. As Schroeder saw it, German consumption of natural gas, which in 2004 already accounted for about 10 percent of its energy consumption, would increase to about 30 percent in 2030.[5] By then, nuclear energy, which at one point constituted about 30 percent of Germany's energy, would be eliminated entirely. In its place, Germany would rely on wind power and increased deliveries of natural gas from Russia, which already amounted to 35 billion cubic meters, or 40 percent of Germany's imports.

Out of office, however, Schroeder's energy policy became a major embarrassment. First there was the unexpected reduction in deliveries of gas to Germany as a byproduct of the January 2006 battle with Ukraine (so much for Russia's reliability as an energy supplier). Then it became known (although Schroeder claims he was unaware of it) that a month before he left office as chancellor, his government had extended a billion-euro credit guarantee (the largest ever extended by Germany) to sweeten the financing of the NEGP pipeline under the Baltic Sea. It was embarrassing enough that such a guarantee would mean the German government had deviated from its traditional practices and agreed to underwrite a commercial project (and for a Russian state-owned company, no less) but, in addition, almost immediately after leaving office Schroeder accepted an appointment as chairman of the supervisory board of the joint venture company that will build the NEGP. On the face of it, all of this was a blatant conflict of interest, particularly given that energy prices were at a record high and private banks were trampling over one another to put up the money for the project, with or without such a guarantee. Schroeder's new job, with its $300,000 annual salary for doing little more than presiding over periodic meetings, appeared to be a reward for promoting greater German reliance on Gazprom and possibly arranging for the German government's construction loan guarantee. To some, it was a sellout of German interests to Russia.

Schroeder was not the only one mixing politics and business. Vladimir Putin has acknowledged that he saw nothing wrong with combining the two, although in his mind it is the Russian state that should benefit. So far there is no evidence that Putin has profited personally. In fact, at a January 31, 2006, press conference, Putin rejected the suggestion that he might appoint himself as the chairman of Gazprom after his term as Russian president ends in March 2008. "I am a politician, not a businessman," he explained. But at a September 5, 2005, meeting of the Valdai Discussion Group in the Kremlin, he made it clear that he saw nothing wrong with using Russia's energy assets to promote Russia's political interests, particularly because so many countries were eager to gain access to those assets.

IV

The January 2006 Ukrainian gas crisis and the subsequent impact on the consumers at the other end of the Ukrainian pipeline made members of the European Union aware of their deep dependence on Russian energy supplies and pipelines. Part of this dependency resulted from the effort to supplement Europe's energy purchases from the Middle East. Additionally, it was the result of Russian and Gazprom efforts to gain control, if not ownership, of domestic and international pipelines. Gazprom officials not only worked to build up the number of customers importing their gas but also sought to gain partial or entire control of the distribution networks used to supply gas to households and businesses in most of those countries. To do this, they sometimes offer to wipe out arrears for past deliveries (they are owed large sums by almost all of their customers in the former Soviet Union). In other instances, especially in Western Europe, they offer to form joint ventures with western partners (Germany with Eon and BASF) or buy up the gas distribution network in the open market (Centrica in England).

Of all the EU countries, Germany has become the most dependent on Russian natural gas. It imports about 36 billion cubic meters of Russian gas annually. Not only does that constitute a little more than 40 percent of Germany's gas imports, it is a larger quantity than that bought by any other country. Finland, Estonia, and Bulgaria rely on Russia for 100 percent of their imports, but because they are smaller countries, the physical volume is considerably less. Even Italy and France rely on Russia for around 30 percent of their gas (see table 1). Overall, Russia today is the source of about 23 percent of Europe's natural gas imports. There are alternative sources of supply in the North Sea (60 percent of Europe's imports) and Algeria (10 percent of Europe's imports), but production, particularly in the North Sea, is declining and there is virtually no excess capacity that can be called on if the flow from Russia is disrupted. As a consequence, Russian gas supplies are critical to the economic and personal well-being of a surprising number of countries, not only in Eastern Europe and the former Soviet Union, but in a growing number of Western European countries. As discussed earlier, Russia now has as much influence over natural gas consumers in Europe as the combined membership of OPEC has over users of crude oil; by unabashedly manipulating its gas pipeline monopoly, Russia has become the OPEC of the natural gas world, at least in Europe.

TABLE 1. Europe's Reliance on Russian Natural Gas

Country	% of imports from Russia 2004	% of imports from Russia 2005
Germany	43	42
Italy	35	32
Turkey	65	66
France	21	20
Poland	62	66
Austria*	—	—
Hungary	81	73
Czech Republic	74	76
Slovakia	100	100
Finland	100	100
Estonia**	—	—
Latvia**	—	—
Lithuania**	—	—

Source. International Energy Agency, *Natural Gas Information*, 2006.
*Origin of Austrian imports "nonspecified."
**Data for Estonia, Latvia, and Lithuania not available in this source.

While it is nowhere near as significant a player, nor as dominant, Russia has also become an important supplier of petroleum to its neighbors in Europe. Just as is the case with natural gas, Germany imports over 40 percent of its crude oil from Russia and other former members of the Soviet Union (see table 2). Should it choose to, Russia can still exercise significant leverage over its petroleum customers.

TABLE 2. EU Crude Oil Imports from the Former Soviet Union (% of Total Imports)

Country	2002 (%)	2003 (%)	2004 (%)	2005 (%)
		Increase since 2004		
Austria	29	34	43	52
Belgium	27	32	41	42
Czech Republic	80.5	86	90	94
Finland	57	70	81	82
United States	6	8	1	2
Hungary	100	100	99	100
Greece	48	39	29	33
		No change since 2004		
France	18	21	23	23
Germany	37	39	42	42
Poland	98	99	99	99
Italy	30	25	27	27
Spain	16	18	16	16

Source. International Energy Agency, *Oil Information*, 2006.

V

Alerted—by Russia's treatment of Ukraine—to the power such access gives Russia, many in Western Europe have belatedly begun to question the wisdom of becoming so dependent on Russia, particularly for its gas. For example, the *Financial Times* published an editorial on February 4, 2006, titled "Your Local Gazprom: The Gas Giant's Interest in Britain Raises Worrying Questions." The paper questioned Gazprom's efforts to buy Centrica, one of Britain's largest natural gas distributors. Were that to happen, the editorial asserted, Gazprom would be able to control, supply, and deliver "20% of the UK's gas market" by 2015. It also expressed uneasiness about any foreign firm gaining such access, but given the Russian government's influence on Gazprom's behavior and the examples of the dependence of Ukraine, Moldova, and Georgia on Russian gas, it argued that control by Gazprom poses special concern. Alex Johnson, the British Trade and Industry secretary, promised that any such bid by Gazprom would be thwarted if it threatened Britain's security.[6]

Responding almost immediately to this challenge, Aleksei Miller, the CEO of Gazprom, warned the EU ambassadors in Russia that efforts to "limit Gazprom's activities in the European market and politicize questions of gas supply [who would do such a thing?] . . . will not lead to good results."[7] Russians would simply take their gas to China or the United States, for example. In fact, Putin had just promised the Chinese a pipeline to western Siberian gas deposits, which the Europeans had heretofore considered to be the source of their future supplies. In other words, do it our way, including standing by as we take control of your domestic gas distribution system, or go cold.[8]

The dilemma for Europe is how to respond to Russia's growing energy power. There is reason to worry that the United States may be faced with similar concerns. Already in 2006, the United States imported more than $10 billion worth of Russian petroleum with even larger purchases anticipated in the future. Lukoil, which recently purchased the Getty oil company, will distribute most of this. The Russians also expect to supply 10 percent of U.S. natural gas needs by 2010.[9]

All this energy wealth is not an unmixed blessing. As the World Bank pointed out in an April 2006 report, Russia's energy wealth has come so quickly and easily that it has frustrated Putin's efforts to build up a manufacturing sector.[10] Ever-increasing earnings from energy exports has pushed up demand for the ruble, which makes ruble-priced Russian manufactured goods more costly for foreign buyers. A stronger ruble also makes foreign imports cheaper for Russian consumers, thereby diverting those who might otherwise purchase Russian-made products.

The World Bank also warns that the Russian government and energy companies are not investing enough for the future. Lulled by the energy export bonanza, they are not only shortchanging new geological exploration but are also not maintaining Russia's existing industrial and communal infrastructure. In addition, they have instituted an excess profit tax on petroleum companies, which deters them from developing new fields.

There is also growing concern that Putin and the people around him have come to regard Russia's energy and raw material wealth as a patronage grab bag to be dispensed to favorite courtiers. While Putin has succeeded in purging several of the more prominent original oligarchs who benefited from the initial and controversial privatization, he has no hesitation in replacing them with a new cadre of former associates from the law-and-order institutions such as the KGB or from the St. Petersburg municipal bureaucracy (see table 3).

TABLE 3. Siloviki in Business

Name	Title	Corporation	Concentration	Day job
Sergei Chemezov*	Chairman/CEO	Rosoboronexport	Arms exports	
Sergei Ivanov*	Chairman	United Aviation	Airplane manufacture	First Deputy Prime Minister
Viktor Ivanov*	Chairman of Board	Aeroflot; Almaz-Antey	Airline; Air defense systems	Deputy head Kremlin administration
Igor Levitin	Chairman	Sheremetyevo Airport	Airport	Minister of Transportation
Dmitry Medvedev	Chairman	Gazprom	Natural gas	Former Putin chief of staff; First Deputy Prime Minister
Sergei Prikhodko	Chairman	Tvel	Nuclear fuel trading	Foreign affairs adviser to Putin
Igor Sechin*	Chairman	Rosneft	Oil	Kremlin staff
Anatoly Serdyukov	Chairman	Khimprom	Chemicals	Minister of Defense
Yevgeny Shkolov	Board of Directors	Transneft	Oil pipeline	Presidential aide
Igor Shuvalov	Board of Directors/ Chairman	Russia Railways; Sovcomflot	Railway; Shipping company	Presidential economic adviser
Sergei Sobyanin	Chairman	Tvel	Producer of nuclear fuel	Putin chief of staff
Vladislav Surkov	Chairman	Transnefteprodukt	Pipeline hardware	Kremlin staff
Vladimir Yakunin*	President	Russia Railways Co.		

*Former KGB member

Few of these government apparatchiks have had any experience in the private business sector. Igor Sechin (a former KGB agent), for example, has a day job as the deputy chief of staff to Putin in the Kremlin, but he also has enough time to serve as chairman of Rosneft, the multibillion dollar company that stripped Yukos of Yuganskneftegas, its most productive asset. Similarly, Vladislav Surkov, also on the Kremlin staff, has become chairman of Transnefteprodukt, a pipeline company. Most prominent of all, Dmitry Medvedev, Putin's former chief of staff and as of 2006 also a deputy prime minister during the day, has also become chairman of Gazprom. Gazprom's capitalized value of $300 billion has just surpassed Microsoft's, which makes it the third-largest corporation in the world after Exxon and General Electric.[11]

Installing government officials as heads of Russia's largest industrial entities parallels an effort by the Russian government to renationalize, acquire, or simply seize majority control of enterprises that, for a time at least, had been private. These enterprises encompass not only energy companies such as Gazprom and Sibneft but also manufacturing companies such as the auto manufacturer AvtoVaz (see table 4). Some regard this new tendency as a form of Kremlin capitalism. They note that the increase in patronage and the resulting distribution of the spoils has little to do with operational efficiency and efforts to increase productivity.

Clearly, economic prospects in Russia are mixed. Nonetheless, Russian energy wealth is abundant enough to provide Putin and his successors with foreign policy leverage that is

TABLE 4. Renationalization and Control by Siloviki

	Renationalized	New owner	State's share (%)
Yugansneftegaz	December 2004	Rosneft	100 (will be reduced to 70 after IPO)
Sibneft Oil	October 2005	Gazprom	51
AvtoVaz Automobile	November 2005	Rosoboronexport	2 (effective control)
Kamaz Diesel Trucks	March 2006	Rosoboronexport	Already 100
VSMPO-Avisma Titanium	February 2006	Rosoboronexport	Under pressure
Gorbunov-Kazan Aircraft	February 2006	United Aircraft	75
MIG Aircraft	February 2006	United Aircraft	90
Sukhoi Aviation	February 2006	United Aircraft	100
Ilyushin Aviation	February 2006	United Aircraft	51
Gagarin Komsomolsk-on-Amur Aircraft	February 2006	United Aircraft	25.5
Sokol Aircraft	February 2006	United Aircraft	38
Chkalov Aircraft	February 2006	United Aircraft	25.5
Tupolev	February 2006	United Aircraft	65.8
OMZ Heavy Machinery	—	—	100
Kamov Helicopter	—	—	100
Transneft Pipeline	—	—	100
Svyazinvest Telecom	—	—	75
Rostelcom Telecom	—	—	38.1
Aeroflot Airline	—	—	51
United Energy Systems Electricity	—	—	52.7
Alrosa Diamonds	—	—	32

Source. Company information.

unprecedented in Russian, or even Soviet, history. Although Russia was one of the world's two superpowers during the Cold War, its nuclear and military strength was counterbalanced by more or less similar weaponry in the United States and NATO countries. This resulting Mutually Assured Destruction (MAD) era tempered the behavior of both sides.

But, as typified by current Gazprom CEO Aleksei Miller's threats to the EU, today no such balance serves to temper Russia's behavior or its use of its energy wealth. There is no Mutually Assured Restraint to restrict Russian behavior other than public opinion and a rather tentative Western threat that unless he is civil, Putin might be excluded from membership in the G-8 and other multinational gatherings. Western threats are a far less effective restraint than MAD. As we saw, neither the Soviet Union nor Russia hesitated to use the country's energy resources as a political and diplomatic weapon. With energy supplies considerably more limited than they were in the Soviet era, Russia again has a powerful weapon at its disposal that this time it can use without anyone or anything able to restrain it. Therefore, despite problems with its manufacturing sector, population decline, and military demoralization, Russia's foreign influence today is that of a new superpower with the emphasis on power as its weapon. In more than one sense it has the EU countries over a barrel. Few outside of Russia would agree with Aleksander Medvedev, the deputy CEO of Gazprom, when he sought to reassure a questioning British audience that "a strong Gazprom is good for the world."[12] Putin and those around him now realize that Russia suddenly has a new kind of unilateral power—one that can not only buy them the allegiance of former state leaders such as Gerhard Schroeder but one that once again can force sitting state leaders to consider carefully the consequences of resisting Russian foreign policy goals.

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