RUSSIA'S FOREIGN POLICY ACE

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As the world's largest gas company with close political and financial ties to the Kremlin, Gazprom has served, and continues to serve not simply as a profit-driven energy company, but also as a strategic tool through which Russia seeks to implement its foreign policy. By employing a mixture of tactics that are both covert and overt in nature, Gazprom has consistently and often effectively served as an asymmetrical instrument of force that the Kremlin has turned to time and again. Since the dissolution of the Soviet Union, Russia has manipulated Gazprom to further two of its most important foreign policy goals – ensuring the rights of Russian communities in the Diaspora and maintaining control over the former soviet republics; regions that Russia refers to as its 'near abroad'. With a deteriorating military and a sense of nostalgia for its old glory, Russia has chosen to adopt this alternative, asymmetric and certainly unconventional strategy in order to maintain its power and influence in a post-Soviet world.

INTRODUCTION

"Gazprom is a powerful political and economic lever of influence over the rest of the world." Speaking to an audience of businessmen, politicians and shareholders at the 10th anniversary celebration for Gazprom, Russian President Vladimir Putin was paying a flattering tribute to Russia's largest and wealthiest gas company. The significance of his statement, however, touches upon a strategy that stretches far beyond the innocuous compliment that some observers may have taken at face value. Russia's president was essentially describing the core of a very clear and deliberate new aspect of Russia's post-Soviet foreign policy – the use of Gazprom as a strategic instrument for asserting its influence over other countries. As a state-controlled company with tightly woven political links to Russia's executive branch, Gazprom wears two masks: one as a utility company, the other as an asymmetrical instrument used by the Kremlin for political gain. Employing methods that are both covert, such as the acquisition of strategic industries in foreign countries, as well as overt, such as dramatic price hikes and cutting foreign supplies, the Kremlin has used the Russian gas giant to re-assert its position as a dominant regional and world player in a post-Soviet world.

GAZPROM'S DOMINANCE

Since its formal inception over a decade ago, Gazprom has steadily become a monolith in the Russian and world gas markets. Founded by Presidential Decree as the Russian joint-stock company Gazprom (RAO Gazprom) in November 1992 (Gazprom 2006a), today it is the largest gas-producing company in the world and enjoys a monopoly position over the production, refinement and transportation of gas in a country that possesses the world's largest gas reserves (Energy Information Agency, 2007). Gazprom's position in the

Russian gas market is so dominant, however, that it would be more aptly characterized as authoritarian. In the words of one analyst, the gas sector "works largely like a centrally planned Soviet market, where Gazprom takes the role of the Ministry of Gas" (Larsson 2006, 30). A 2004 report by the Organization for Economic Co-operation and Development (OECD) elaborates upon Gazprom's dominant grip on the market. In examining the fact that Gazprom maintains control over all data on exports and pipeline capacity, regulates the entire process of gas rationing, and is shielded in many ways from both private and public oversight, the report ultimately comes to the marked conclusion that a Russian gas 'market' (in terms of competitiveness and capitalist forces) essentially does not exist (Organization for Economic Cooperation and Development 2004).

With Gazprom exerting such dominant control in the Russian gas market, the few competitors that do exist, such as Itera and Eural Trans Gaz, face substantial difficulties in maintaining their independence and financial integrity. With Gazprom in control of 90 percent of all of Russia's gas and complete control of the pipeline transportation network, any attempt to transit gas within or across Russian territory is only granted with the consent of Gazprom (Larsson 2006). This fact is underscored by the limited ability of Central Asian countries to transport their vast gas resources to the profitable markets in Western Europe without an agreement from Gazprom to use Russia's pipeline network (Blagov 2006). As long as Gazprom maintains control over the transaction and transport of gas across its territory, each of these companies can be nothing more than "a de facto subsidiary of Gazprom" (Larsson 2006, 149).

Yet the relationship between Gazprom and one of its regional competitors, Itera, runs deeper than just the formal agreement to transport gas. While Gazprom supporters would reference the results of two 2001 investigations[i] that looked into the uncertain relationship between Itera and Gazprom and produced no evidence of wrongdoing, the facts to the contrary are significant. Most of these shadowy connections are described in an article written in 2002 by the Carnegie Endowment, which outlines tax scams, shady second hand gas transactions and the manipulation of gas prices for windfall profits (McGregor 2002).

Gazprom's dealings with another regional competitor, Eural Trans Gaz, are no less contentious. An August, 2003 article in *Ukraina Cryminalna*, a Radio Free/Ukraine Service publication, is one of several publications implicating Eural Trans Gaz in multi-million dollar speculative deals with Gazprom[ii] (International Helsinki Federation of Human Rights 2006). Gazprom's entrenched position in the Russian gas market is undeniable. By maintaining its control over the pipeline network, the vast majority of Russia's gas resources, all transport and reserve information relating to the Russian gas sector, in addition to a suspiciously close relationship with two of its regional gas competitors, Gazprom maintains a position of unparalleled and resounding strength as it sets out to achieve company goals.

GAZPROM AND THE STATE

As Gazprom has expanded its power and influence within the Russian market and abroad, the Kremlin has found an especially close relationship with this energy monolith to be in its own best interests. Besides staking its claim to a 51 percent share in the company, the Russian government has also passed the Gas Supply Law that limits foreign shareholdings in Gazprom's capital to no more than 20 percent (Stern 2005).

The ties between the executive branch and Gazprom, however, run much deeper than majority ownership and restrictions on foreign possessions. The extent of President Putin's personal connections with the Gazprom leadership, for example, is striking Appointed in 2001 as the Chief Executive of Gazprom, Alexei Miller is one of Putin's closest confidants and an old friend since Putin's days as a city official in St. Petersburg. With three meetings per week scheduled with the President, Miller has the benefit of unparalleled access to Russia's top official (Larsson 2006, 117). The connections between Gazprom and the Kremlin, however, are not limited to this single relationship. Besides Miller, eight out of nineteen of the new management committee members can be linked to Putin (Stern 2005).

Further exploration of Gazprom's Board of Directors also exposes links between the company and the state. Out of eleven members of the Board, two are current ministers (German Gref – Min. of Economic Development and Trade; Victor Khristenko – Min. for Industry and Energy), one is the Head of the Presidential Administration (Dmitri Medvedev), one is an ex-minister (Farit Gazizullin – Min. for Property Relations), and one is the Special Envoy to the President for International Energy Cooperation (Igor Yusufov) (Gazprom 2006b). It is also noteworthy that Russia's current Ambassador to Ukraine, Victor Chernomyrdin, was the former CEO of Gazprom. Ukraine is an especially important transit country for Russian gas, as its pipelines transport 90 percent of Gazprom's exports to West and Central Europe (BBC 2006a). With the establishment of such close political ties to the Kremlin, Gazprom "became very much a part of the state…and accepted its role as an instrument of government policy both domestically and internationally" (Stern 2005: 173).

As a result of its strong political ties to Gazprom, the Kremlin has the ability to use the company as a viable tool for exerting its influence over other countries, especially those that are dependent on Russian energy supplies. This strategic use of energy resources as a political tool is directly related to Russia's post-Soviet foreign policy.

RUSSIA'S POST-SOVET FOREIGN POLICY

Despite its relative weakness following the collapse of the Soviet Union, within the last decade Russia's rising influence has resulted in a foreign policy that has been typically aggressive and often coercive. Having relinquished its superpower status at the end of the Cold War, Russia retains a strong desire to restore its position as a respected and dominant player on the world stage. As part of this attempt to reach the heights of its former power, Russia has asserted an exclusive claim to its sphere of influence, a region that is often referred to as its 'near abroad' and includes the fourteen states that were once part of the Soviet Union in Central Asia, the Caucasus and Eastern Europe.[iii] Russia has taken steps to retain a significant degree of authority over the affairs of these countries – some of which (specifically Ukraine and Belarus) are even viewed as an inseparable part of Russia itself (Russell 2005).

Coupled with this Russian Monroe Doctrine[iv] is the need to protect Russians living abroad. According to Presidential National Security Advisor Yuri Baturin, Russia has "a duty as a great power to protect Russians in the near abroad" (Russell 2005, 66). Thus any attempts by an outside power to assert its influence in these areas, or any anti-Russian/pro-Western shift in the foreign policies of these near-abroad countries will be interpreted as an unfriendly policy directed against the Russian State itself. Likewise, any infringement on the perceived 'rights' of Russian minorities living abroad will also be perceived as a direct affront to Russia.

One of the principal strategies for implementing this assertive foreign policy is the aggressive use of energy resources. According to one research analyst at the Swedish Defense Research Agency, energy is "a short cut for Russia in its international relations and attempts to be treated with respect. This is one of the most important reasons why energy exports are politically important to Moscow" (Larsson 2006, 50). This politicization of energy is further underscored by official state documents. In the early months of 2003, Russia updated its official 'Energy Strategy'. Embedded in this document, "in which the foreign policy significance of the energy export [is] elaborated," is the notion that energy resources are vital not only to the nation's economic prosperity, but also to its national security (Fredholm 2005, 13). The "militaristic" tone that the document takes is therefore not entirely surprising (Larsson 2006, 65). The Strategy states that energy will be used as a powerful defensive force against possible blackmail as well as an offensive security tool that will be used to prevent against any greater geopolitical threats. Given Gazprom's ubiquitous influence in the Russian gas sector, it's extensive political connections to the Kremlin, and the strategic role of energy in Russia's foreign policy, Russia has strategically made frequent use of Gazprom as a political instrument.

GAZPROM'S IMPERIALISM

Gazprom has taken a two-pronged approach to gaining leverage over other countries – one is covert and the other is more explicit. The more concealed strategy is one that is premised upon a doctrine that was first published in *Nezavisimaya Gazeta* in early October, 2003 by the prominent Russian statesman and CEO of the Russian electricity giant United Energy Systems, Mr. Anatoly Chubais. The Chubais policy of "liberal imperialism" is guided by the principle of establishing Russia's dominant influence not by coercion or military occupation, but rather by strategically using state-controlled companies, such as Gazprom, to take possession of foreign industries that are necessary to people's daily lives. Once these state-controlled companies have become sufficiently integrated into the markets in other countries, the Kremlin will be able to assert its influence by manipulating the prices and distribution of necessary products through Russian companies. In the energy sector, one of the main ways in which Russia has sought to assert itself "has been to make use of dependence on Russian gas and the growing participation of Russian capital in the privatization of key sectors of these states' economies" (Grachev 2005, 266).

In line with this aggressive economic tactic, Gazprom has targeted for purchase a host of gas pipeline, distribution and extraction companies in its near abroad. Yet the notion of an energy company expanding to acquire new assets in other countries is not a new or even threatening concept. What makes Gazprom stand out from other energy companies who buy foreign assets has been the forceful and selective manner in which it has chosen to acquire and operate these properties, as exemplified below. As a state-owned company with especially close links to the executive branch, furthermore, Gazprom's manipulative tactics can be viewed as an extension of the Kremlin's politics.

Gazprom's assets in the energy sectors of other countries, especially in the former Soviet Union (FSU), are extensive. In Kazakhstan it holds a 50 percent stake in the gas distribution company ZAO Kazrogaz; in Kyrgyzstan it owns over 85 percent of the gas and oil exploitation company AO Kyrgyzneftegaz; it owns 45 percent of the Armenian gas exploitation company ZAO Armrosgazprom; in Ukraine it holds a 50 percent stake in the gas pipeline operator SP Rosukrenergo (Larsson 2006). In Lithuania, Gazprom owns 40 percent of the gas distribution company Lieutuvos Dujos and in 2003 also acquired the Kaunas power plant. Gazprom owns 40 percent of Estonia's gas distribution company Eesti Gaz and holds a 50 percent + 1 share stake in Moldova's gas pipeline operator AO Moldovagaz (Fredholm 2005).

Clearly Gazprom has established a diverse portfolio of foreign assets that allow for ample leverage in the energy sectors of these countries. The terms leading to the acquisition of these and other potential properties have often had links to political issues and goals that have served to further strengthen the Kremlin's influence. Gazprom's tactics have included "taking advantage of its customers by allowing them to run up debts that could only be exchanged for equity in infrastructure and energy companies" (Fredholm 2005, 18), raising or threatening to raise prices at times that coincide with political summits, as well as providing favorable treatment for countries or regions with closer diplomatic ties to the Kremlin.

Gazprom's dealings with Moldova serve as an important example of such strong-arm tactics. Upon realizing that it would be unable to pay off its energy debts in 1998, the Moldovan government was under pressure to come up with other ways to compensate Gazprom for its overdue payments. After much deliberation, the government resolved that the only form of payment besides cash that would adequately satisfy Gazprom was to sell off certain strategic energy assets. In October, the Moldovan government reluctantly approved of a plan that would turn over the entire country’s gas supply system to Gazprom (The Jamestown Foundation 1998).

The timing of this turnover was especially significant. Though Moldova’s debt had been accumulating since 1991, Gazprom’s demand for payment coincided with discussions between Moscow and Chisinau on the withdrawal of Russian troops from the breakaway region Transdnestria (Socor 2006). In rejecting Moldova’s call for the removal of all foreign troops from its territories, Russia subsequently made additional demands to raise the price of gas and to gain control of strategic gas properties in order to force a favorable outcome regarding the matter of troop withdrawal.

Russia has raised the price of gas in order to forcefully acquire strategic properties in the markets of other countries as well. In Belarus, despite its especially close relationship with Moscow since the breakup of the Soviet Union, Gazprom has relentlessly pursued ownership of the pipeline network. As the transit corridor for twenty percent of all Russian gas transported to Europe, possession of this pipeline network would free Gazprom from any third party intervention in the transit of its gas. Ownership would also provide the company with further room to maneuver in Belarus’ gas sector. In December 2006, during the heart of Belarus’ frigid winter season, Gazprom suddenly threatened to raise the price of gas in Belarus from $47 per thousand cubic meters (tcm) to a relatively much more expensive price of $105/tcm (BBC 2006b). Unless Belarus ceded control of its distribution network, which is operated by the state-owned company Beltransgaz, Gazprom threatened to increase the price of gas even further to $200/tcm (Voice of America 2006). It was not until the day their gas contract was set to expire, January 1, 2007, that Belarus and Gazprom agreed to a new deal. In order to stave off even higher prices during the frigid winter, Minsk was forced to sell a fifty percent stake in Beltransgaz, and will pay $100/tcm in the first year of a steadily increasing five-year deal (The Economist, 2007). In addition to the transit pipelines, Gazprom now controls all of the local pipelines within Belarus.

Russia has applied these same tactics in Armenia as well. Despite agreeing to pay nearly double the price for its gas import needs, Armenia has signed a deal with Gazprom that sets a price of $110/tcm through 2008 (Mosnews 2006) – a figure that is still less than half of the $250/tcm average that is being charged to many European countries. In order to achieve this relatively low price, however, the government in Yerevan agreed to hand over control of significant energy properties. These include ownership of the Armenian section of a planned 40km pipeline that will bring gas to the country from Iran, as well as possession of an Armenian power plant (BBC News 2006c). Staying true to its desire to maintain widespread influence, Gazprom has demonstrated that it will even act with a heavy hand in countries such as Belarus and Armenia that are ‘friendly’ to Moscow.

Countries which belonged to the FSU that have adopted a foreign policy that is viewed as unfriendly to Moscow have been even more susceptible to Gazprom’s merciless policies; this has been especially evident in Georgia. Since the breakup of the Soviet Union in 1991, Georgia has pursued a "cautious but nevertheless consistently Western-oriented foreign policy" (Rondeli 2001, 196). This gradual but deliberate shift away from the influence of its former colonial superpower and towards stronger ties with Western Europe and the United States has constantly irritated Moscow, especially as it runs counter to Russia's foreign policy strategy of maintaining a dominant presence in its near abroad. Georgia's shift towards the west has been manifested in several forms, which include the country's clear aspirations to join the inherently Western NATO, its cooperation with the United States in advanced army training (the Georgian Train and Equip Program), and its contribution of the most troops per capita of all coalition countries to the U.S.-led forces in Iraq (Civil Georgia 2007). In addition to being one of the founding members of the GUUAM organization, a group of five countries (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) that have sought to develop a new non-Russian center of power in the region, Georgia's deliberate decision to disengage with the Kremlin has been a constant challenge to Russia's foreign policy goals.

The construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline that deliberately bypasses Russian territory, transporting oil from the Caspian Sea to Western markets, has been a source of strong resentment from Russia as well. Led by a consortium of western-based energy companies, this new route for transporting resources from Central Asia to the Western Europe and beyond has effectively undermined Russia's monopoly on the transport of fuels from this region. Georgia's Rose Revolution in 2004 that brought to power a staunchly pro-Western government led by the former Minister of Justice, Mikhail Saakashvili, was a further signal that Russia's influence was becoming increasingly less welcome. Following a post-revolution visit by U.S. President George W. Bush to Tbilisi in May 2005, little doubt remained as to the new direction of Georgia's foreign policy.

The most significant factor in these developments is the growing Western presence in a country that Russia views as naturally part of its sphere of influence. Regardless of strong popular sentiment within Georgia in support of the government's pro-Western foreign policy, Russia has made repeated attempts to assert its will in the country by resisting this policy shift (Civil Georgia 2006a, Stice 2006). Georgia's heavy dependence on Russian gas has provided a convenient point of leverage for the Kremlin to express dissatisfaction and to try and bring Tbilisi back into its orbit. In breaking with one of the central tenets of Russia's foreign policy – maintaining control over it's near abroad – Georgia has found itself the target of repeated threats and gas cuts.

Since the end of the Soviet Union, Georgia has fallen victim to "numerous gas cutoffs…coincid[ing] with special events, such as elections, bilateral negotiations or Russian bombardment of Georgian territory" (Larsson 2006, 228). With Gazprom acquiring control of gas distribution to Georgia in 2003 from Itera, supply disruptions and threats have become even more potent. In November 2005, Gazprom announced that it would be raising Georgia's gas prices from $USD63/tcm to $110/tcm. These demands, however, were timed to coincide with a meeting of the CIS Energy Council in Tbilisi in order to force Georgia's hand. Only when Georgia agreed to Russia's demands to join a united energy market did Gazprom issue reassurances that there would be no disruptions (Larsson 2006, 231).

In addition to artificial alterations of price and transit, Gazprom has also targeted the ownership of pipelines as a means for exerting influence in Russia's near abroad. Gazprom has been especially relentless in its pursuit of the main trunk pipeline that transits a majority of Georgia's annual 1.5 billion cubic meter (bcm) consumption of gas from Russia (Central Intelligence Agency 2007). With discussions dating back to February 2005, Gazprom's attempts to obtain ownership of the pipeline have been consistently rebuffed by Georgian officials (Gularidze 2005). In September 2005 Gazprom suffered a further setback in its efforts to acquire the pipelines as a result of a $295.3 million Millennium Challenge Corporation loan from the United States. According to the terms of the loan, Georgia would receive $49.5 million to rehabilitate the North-South gas pipeline through 2010, as long as it remained in the hands of the Georgian government (Millennium Challenge Corporation 2007). The entrance of the United States into Georgia's precarious pipeline politics was a double-blow to Gazprom's aspirations; not only did it serve to strengthen the presence of the United States in a region that Russia has declared as part of its inherent sphere of influence, but it has also threatened Gazprom's monopoly on the region's resources by forcing the company to realize that there is another major player vying for regional influence.

Faced with foreign intervention on its self-declared sphere of influence, as well as the potential threat posed to its predominant regional monopoly on gas supplies and transport, Gazprom's reaction to these events was surely unsettling. The timing of carefully calculated explosions around these two pipelines that cut gas supplies to Georgia in early 2006 was, therefore, highly suspicious. Raising additional concern was the fact that the pipeline was well within Russian territory and under the control of Russian troops in North Ossetia. Immediately following the attacks, Georgian President Mikhail Saakashvili pointed to "numerous threats by Russian politicians and officials at different levels [who wanted] to punish us for basically not giving them pipelines" (BBC 2006d). Despite Russia's promises to get to the bottom of the explosion, no charges have been filed for these destructive acts. Georgia was consequently left without gas during one of its most frigid winters in over twenty years (Ibid.) and was forced to negotiate with Iran to import extra gas at a rate of $233/tcm– a price well above the $110/tcm it was paying Gazprom at the time (Civil Georgia 2006b).

Gazprom has used its coercive tactics as a means of influencing politics in Ukraine as well. Ukraine's geographical location in Russia's near abroad, coupled with the large amounts of Russian gas that are transported across its territory to Europe, underscore the country's high level of importance to Gazprom and the Kremlin. The manipulation of gas prices and supplies, however, is nothing new to Kiev. Since the early 1990's Gazprom has attempted to impose its will on Ukraine with respect to certain political decisions.

During the summer of 1993, an important meeting was set between Ukrainian President Kravchuk and Russian President Yeltsin to discuss key issues that included the status of the former Soviet nuclear arsenal in the region, Ukrainian debts to Russia and the state of Russia's Black Sea Fleet (Kasianov 1995). Yet just one week prior to the conference, Gazprom cut Ukraine's gas supplies by 25 percent, citing 'non-payment' as justification (Fredholm 2005). The only way that the gas could be returned to its full supply was if Ukraine could find some way to pay these 'debts'. It was understood that if President Kravchuk gave in to Russia's demands, the 'debts' would be forgiven and the gas supply returned to normal (Ibid.). This same coercive behavior was witnessed again in 1995 when Russia tried to force Ukraine to join the CIS Customs Union. While waiting for a response from Kiev, Gazprom raised the export prices of its gas in an attempt to influence Ukraine's decision in the matter (Fredholm 2005).

Gazprom's political overtures grew increasingly more dramatic in the fall of 2004. In the heat of a presidential election that pitted a pro-Western candidate, Viktor Yushchenko, against a pro-Russian candidate, Viktor Yanukovich, Gazprom threw the full weight of its support behind Yanukovich by promising contracts at the favorable price of $50/tcm if the pro-Russian candidate was elected (Larsson 2006). Following Ukraine's Orange Revolution in the winter of 2004-05 that brought the Yushchenko government to power, Ukraine's foreign policy direction underwent a decisive shift away from Moscow. Since coming to office, Yushchenko has strengthened Ukraine's resolve to join both the EU and NATO, and has received widespread support from the Bush government in Washington in its pursuit of these endeavors.

With all signs pointing to a deliberate move away from Ukraine's historically close ties to Russia, Gazprom's tactics became more aggressive. In the middle of Yushchenko's first icy winter in office, Gazprom suddenly declared in December 2005 that it would be increasing the price of gas by more than a factor of four – from $50 to $230/tcm. If an agreement could not be reached by January 1, 2006, all gas supplies would be cut. After three days with no gas in the beginning of January, Ukraine and Gazprom came to an agreement that resulted in prices jumping from $50 to $95/tcm – a price Gazprom claimed could have been reduced if Ukraine had agreed to sell the pipeline crossing its territory into Europe (BBC News 2006e). In response to these forceful tactics, U.S. Secretary of State Condoleeza Rice declared that Russia's actions were "undoubtedly directed by political motives" and that it was "using its energy resources as a political weapon" as a punishment for Ukraine's new pro-Western orientation (Larsson 2006, 209).

The countries in the Baltic region have also been susceptible to the forceful use of gas supplies. Upon gaining their independence in the winter of 1992-93, energy cuts were made to all three Baltic States to send a clear message about Russia's dissatisfaction with their break from the defunct Soviet empire. Not only was Russia finding it difficult to come to terms with the territorial loss of the former soviet republics, but it was struggling to salvage any sense of political allegiance as well. Following calls from Estonia, Latvia and

Lithuania for the removal of Russian troops from their respective territories, the Kremlin imposed a four-fold increase in the price of gas as a punishment for their ‘disloyalty’ (Larsson 2006).

Subsequent decisions by some of the Baltic States since their independence have been particularly vexing to the Kremlin. Prior to the 1993 elections in Estonia, the government in Tallinn had been discussing the adoption of a “Law on Aliens” that would address issues such as visas, legal compliance, immigration quotas and employment for non-citizens. The perception in Russia, however, was that these new laws would be detrimental to the lives of the non-indigenous Russian population living in Estonia. In accordance with one of the main tenets of its post-Soviet foreign policy - protecting the interests of Russians living aboard - Russia once again relied on Gazprom to assert its influence. With Russian officials stating that “the government and parliament…have quite a few levers to make Estonian authorities realize the impermissibility of violating the rights of non-indigenous people” (Larsson 2006,189), gas cuts were seemingly only a matter of time if the laws were approved. With the adoption of the Estonian laws on June 21, 1993 (the “Law on Aliens”), Gazprom proceeded to cut gas supplies to rebuke Tallinn for its political decisions (Fredholm 2005).

In response to accusations that it was raising prices to gain political leverage over the aforementioned countries and others, both Kremlin and Gazprom officials have repeatedly stressed that price hikes “merely reflect market prices” (BBC News 2006b and Radio Free Europe 2007). The Russian argument, however, does not stand up to reason. A blatant disregard for ‘market prices’ is evident in Russia’s policy towards the separatist territories in its near abroad. The behavior of Gazprom in the Transnistria region in Moldova and the Abkhazia and South Ossetia regions in Georgia clearly underscores this point. Each of these regions has close ties to Russia and has been supported by Moscow in various ways in their respective struggles against sovereign host governments. Despite Transnistria’s debt to Gazprom, a figure that has reached more $1 billion, the breakaway region has received gas “almost gratis for a decade” (Socor 2006). Even during Gazprom’s supply cuts to Moldova in the winter of 1999 and February of 2000, Transnistria, despite being recognized by the international community as part of Moldova, never had its gas supply threatened.

This same form of price discrimination that defies the principles of ‘market pricing’ can be found in Georgia’s rebellious regions as well. Since breaking from the government in Tbilisi shortly after Georgia’s independence in April 1991, Abkhazia and South Ossetia have received significant energy resources from Russia. In the words of President Saakashvili,

> There is nothing ‘free market’ or ‘market rate’ behind Russian energy prices…In Georgia, both Abkhazia and South Ossetia, two areas that are outside of our control and whose separatist authoritiesare directly controlled by Russia, receive natural gas free – hardly a practice free marketers would applaud (President Saakashvili, quoted in Larsson 2006, 211).

This point has been further supported by the construction of a 163 km gas pipeline that runs directly from Russia to South Ossetia’s capital, making the breakaway region independent from Georgian gas supplies (Radio Free Europe 2006). In a region that has a sparse, unemployed population and nearly no industry, it is evident that Gazprom's decision to begin constructing the pipeline in November 2006 was not financially motivated. Such biased and politically-driven actions in these secessionist regions are best described by the Chair of the State Duma Foreign Affairs Committee in Russia, Konstantin Kosachev. Emphasizing the political role of Gazprom, Kosachev stressed that Moscow "will continue to subsidize energy supplies to its allies" and "apply market principles to those countries [with which] we don't have an alliance-type relationship" (Larsson 2006, 220). With a deteriorating military and a sense of nostalgia for its old glory, Russia's energy resources "are the former superpower's last remaining hope for regaining its world status" (Grachev 2005).

POLICY IMPLICATIONS OF RUSSIA'S FOREIGN POLICY STRATEGY

Using covert tactics to forcefully acquire strategic foreign gas properties and overt tactics of threats, price increases and supply cuts, Gazprom has unquestionably proven itself as a powerful political tool that has staunchly defended the interests and policies of the Kremlin with great dexterity. Yet as Russia continues to employ this asymmetrical strategy for exerting its influence abroad, the forceful use of Gazprom has created important policy implications for both Gazprom customers as well as the international community. On the international level, Russia's successful use of this tactic could set a dangerous precedent by establishing a model that could easily and effectively be replicated by other states with market dominance in the energy sector. Such a standard could adversely affect the numerous countries that rely on foreign energy resources by empowering these national suppliers with the idea that their own energy supplies could be used to help dictate the foreign policies of dependent nations.

Yet for the countries that are currently dependent upon Russia for the majority of their gas supplies, the possibility of reducing Gazprom's influence in the near future remains low. Handicapped in their ability to search for alternative sources by the dint of their close geographic proximity Russia's vast pipelines and resources, these heavily dependent countries face additional difficulties amongst themselves as each weighs its own individual interest against that of the group. While collective action (in terms of negotiating the construction of alternate pipelines, price bargaining, or exploring for non-Russian sources of gas) would be one of the most effective ways of resisting this coercion, such a strategy has been hindered by the fact that each country has its own individual contract dictating the price and quantity of supplies that it receives from Gazprom. Faced with the inability to negotiate price and quantity as a trading bloc or to obtain gas supplies from another region, these countries remain for the near future at the mercy of Gazprom's policies.

While the international community may in fact have an understanding of Gazprom's forcefulness, it is unlikely that any serious action will be taken to dissuade Russia from using this tactic. Russia's position on the UN Security Council, as a member of the G8, and as one of the largest suppliers of oil on a daily basis, together serve to dissuade the international community from pursuing the strong action that would be needed to force an end to this policy. Any action that might limit or sanction Russia's manipulative use of Gazprom could come at the cost of losing Russian cooperation on a host of several other relatively more threatening issues. The need for Russian support on stemming the proliferation of nuclear weapons, international efforts to reduce climate change, counter-terrorism activities, UN reform, and aid to Africa exceeds the urgent desire of many dependent countries to prevent Russia from using Gazprom forcefully.

In the short term, the most effective form of resisting Gazprom is for each heavily dependent country to diversify its supplies where possible and to develop more efficient energy policies, including the use of renewable sources. While the cost of employing many of the newer and more efficient technologies may be prohibitive for some of the countries in Russia's near abroad, the most realistic policy in the short-term is for these countries to make efficient use of the resources available to them, so as to not feed into Gazprom's influence any further. In the long term, these countries should work to lobby for access to non-Russian sources of gas, specifically in Central Asia and in the Caspian region. If the countries in Russia's near abroad can crack Gazprom's heretofore monopoly on these sources of gas by strengthening diplomatic ties with other resourceful countries and by building new pipelines bypassing Russian territory, Gazprom will face the possibility that alternative sources of energy are viable options threatening its monopoly. If such a threat were to exist, the possibility that Gazprom would moderate its behavior for the sake of keeping its foreign customers could not be so far-fetched. With Russian influence continuing to grow in these areas, however, this will be no easy task.

NOTES

[i] In 2001, two investigations were undertaken to investigate Gazprom's relationship with Itera. One of these was conducted by Gazprom's own auditors, PricewaterhouseCoopers (PwC), while the other was conducted by the Russian Audit Chamber. The results of the PwC audit were released in July, 2001 to the public and concluded that "Russian legislation was not violated" in the relations between the two companies. The results of the Russian Audit Chamber (a body which acts as the government watchdog, similar to the United States' Government Acocuntability Office) were generally inconclusive regarding this issue.

[ii] See "Murky Deals At Gazprom" *Business Week*, June 21 2004 (http://www.businessweek.com/magazine/content/04_25/b3888073_mz054.htm), and "A Suspect Gazprom Deal," *Alexander's Gas and Oil Connections*, Vol. 8, Issue 3 (http://www.gasandoil.com/goc/company/cnr30654.htm)

[iii] The fourteen former Republics of the Soviet Union are: Azerbaijan, Armenia, Georgia, Belarus, Moldova, Ukraine, Estonia, Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan and Tajikistan.

[iv] This term alludes to a policy of non-intervention that came to be known as the Monroe Doctrine, named after former U.S. President James Monroe. Delivered in address to Congress in 1823, Monroe outlined a policy based on establishing distinct spheres of influence in each hemisphere; intervention or colonization by another world power into the sphere claimed by the United States would be deemed as a hostile encroachment upon its self-declared orbit of power. The term is used here in relation to Russia's policy of ensuring that it maintains predominant influence over the territory that consisted of the Former Soviet Union.

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