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# The Russian power play on oil, natural gas reserves The Boston Globe

By Marshall I. Goldman  
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THE LAST few years have been humbling for multinational energy corporations, which until recently were the most self-assured, if not arrogant, businesses in the world. This change in status has been particularly dramatic in Russia, where nearly every foreign private energy corporation has met its comeuppance. Yet these same foreign operators endure the pain and smile helplessly as their operations are whittled away and effectively nationalized.

No less than Russia's one-sided battle with tiny Georgia, the multinationals' acquiescence reflects Russia's reemergence as a superpower. But unlike during the Cold War, when the US nuclear arsenal served as a check on Russia's nuclear arsenal, today there is no such check on Russian energy dominance.

With oil and natural gas prices near record highs, energy producers are rushing around the world seeking new supply. Each year the search becomes more difficult. In those few countries where it is thought that there are still reserves to be discovered and extracted, such reserves are mostly located offshore or in difficult to reach deposits. Virtually all the host governments today insist on a larger cut of the revenue, or even exclusive production rights for their own domestic companies.

Russia has been particularly aggressive. In one of the most blatant instances, Shell Oil was forced to yield control of its operations off Sakhalin Island in exchange for a payment of \$7.4 billion from state-dominated Gazprom. Most outside analysts estimate that Shell's share was worth \$15 billion to \$17 billion. Not only was Gazprom's payment far below the amount Shell had invested in the project, but it provided Gazprom with a dominant 51 percent share of the ownership. This heavy-handed offer from Gazprom came after state environment officials threatened to close down the entire operation because of supposed environmental violations.

Shell could hardly refuse the offer. It was either take in Gazprom as the dominant partner or risk losing the investment. Sure enough, once Gazprom took over, the environmental issue magically disappeared. Shell's CEO, Jeroen van der Veer, vainly tried to put a gloss on the whole episode by rationalizing that "the great news is that now there is stability so we can all work together, all the shareholders, to get the project up and running as soon as possible. . . . Thank you for suggesting this truly historic event." He even thanked Russia's Vladimir Putin "for your assistance."

Other foreign ventures in Russia have suffered a similar fate. One was TNK-BP, the British Petroleum joint venture whose 62.9 percent investment in the Kovykta gas field was also arbitrarily transferred to Gazprom.

ExxonMobil and the French firm Total have also been targeted. Despite existing

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contracts, one or another agency of the Russian government has coerced almost all the foreign energy companies operating in Russia to relinquish partial or majority equity to a state-dominated Russian energy company, usually Gazprom and Rosneft, and at a price far less than the amount of investment funds already expended.

Putin's reassertion of the state's role has had dramatic effects. After privatization, the share of petroleum produced by state dominated energy companies in 2000 fell to 10 percent of the total. Today, state-controlled companies again account for about 50 percent of Russia's total output. As for the future, Putin's goal is to see Gazprom's market capitalization jump to \$1 trillion, which would make it the largest corporation in the world.

That the once mighty oil multinationals suffered this semi-renationalization, (which Russia's new president, Dmitri Medvedev, himself once described as "legal nihilism") only shows how difficult it is for a foreign company to operate in Russia today. Western executives have few alternatives. As an executive once told me, "What choice do we have? Of course we can always go to Peru and see if we can find a way to work with the Shining Path [guerrilla movement]. But will that be any better than what we have to work with here?"

Russia today has become more powerful relative to Europe than it has been since Napoleon, a situation that is all but certain to make the Europeans less willing than the United States to challenge Russian policies. Energy may accomplish for the Russians what the Soviet and Russian armies by themselves could not.

*Marshall I. Goldman, senior scholar at the Davis Center for Russian Studies at Harvard, is the author of "Petrostate: Putin, Power, and the New Russia."* ■

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