

# Executive Summary Backgrounder

No. 2235  
January 30, 2009



Published by The Heritage Foundation

## Russia's Drive for Global Economic Power: A Challenge for the Obama Administration

*Ariel Cohen, Ph.D., and Lajos F. Szaszdi, Ph.D.*

Until the recent global financial crisis, Russia's economic revival under Vladimir Putin had helped to restore the country's standing as a major player in the world arena. In many respects, Russia's invasion of Georgia was fueled by Russia's economic growth and newfound wealth.

This economic prosperity was largely the result of Russia's oil and natural gas exports, coupled with the high prices of other Russian commodities in world markets. With the seventh-largest oil reserves and the largest gas reserves in the world, and as the leading exporter of oil and gas, the Kremlin is using its energy exports, export revenue from arms and metal sales, and investments abroad, including in the mining and energy sectors, to extend Russian influence worldwide.

Russia shut down the flow of natural gas to Ukraine in January 2006 and again in January 2009. It attempted to prevent Caspian oil and gas supplies from flowing freely to European markets by applying pressure on Kazakhstan, Turkmenistan, and Azerbaijan; threatened to disrupt oil exports through Georgian territory when it invaded Georgia; has acquired, and is in the process of acquiring, European energy companies, as well as pipelines, refineries, and other assets in more than a dozen countries. Moscow is also targeting the strategic Middle Eastern oil and gas sector for joint ventures, and is displacing Western energy companies operating in OPEC founding member Venezuela.

Russia's geo-economic ambitions cover the entire Eurasian landmass from the Atlantic to the Pacific. Severe repercussions for Europe's national security due to dependence on Russian energy are widely recognized by the European Union and individual nations. Furthermore, Russia aims to become a major energy supplier and provider of raw materials to countries of the Asia-Pacific region, including China, Japan, South Korea, and also the United States. Such a goal, if achieved, would greatly enhance Russian economic and political leverage in the Pacific Rim.

**Russia's Economic March.** The geo-economic and geopolitical implications of Russia's economic power projection abroad cannot be overstated: As the Russian state's main source of revenues and as a foreign policy arm, it enables the Kremlin to extend Russia's influence on a global scale. Moscow exercises economic—and political—influence over countries that depend on Moscow's resources. Russian exports and investment projects are an instrument for establishing and developing strategic

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/RussiaandEurasia/bg2235.cfm](http://www.heritage.org/Research/RussiaandEurasia/bg2235.cfm)

Produced by the Douglas and Sarah Allison  
Center for Foreign Policy Studies  
of the

Kathryn and Shelby Cullom Davis  
Institute for International Studies

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting  
the views of The Heritage Foundation or as an attempt to  
aid or hinder the passage of any bill before Congress.

relationships through the export of commodities, arms, and nuclear technology.

Since Vladimir Putin became president in spring 2000, the Kremlin has been backing the formation of “national champions” of the economy—corporate giants, private or state-owned, and subservient to the government. The huge corporations favored by the Kremlin—Gazprom, Rosneft, LUKoil, and Rostekhnologii (Russian Technologies)—have become instruments of the Russian state’s policy to dominate the national economy and to project its power abroad through a trade-based foreign economic policy. The Kremlin has been using energy exports as a tool of its foreign policy. The most notorious example is the disruption or the threat to cut off oil and gas exports to an importer country, such as Ukraine, that is perceived as adopting policies that go against Russia’s national interests.

**A Perfect Storm.** The international financial crisis has seemingly put a stop to Russia’s dynamic efforts at worldwide economic expansion. The invasion of Georgia made economic problems in Russia worse, triggering a further outflow of capital due to fear of instability. The interruption of gas supply to Ukraine and the rest of Europe in January 2009 once again raised questions about Russia’s reliability as a supplier of energy. Other problems have combined to create a perfect financial storm against Russia: International banks called loans of vastly powerful oligarchs who, before the crisis and precipitous drop in company valuations, used their company shares as collateral for foreign loans; and the price of oil and other commodities, including metals, fell, causing grave losses to Russian state financing.

The Obama Administration should, therefore, take quick action to:

- **Ensure** that CFIUS (Committee on Foreign Investment in the United States) has the resources and support it needs to conduct its investigations according to the law. The U.S. should urge its allies to develop similar institutions and processes to perform national security evaluations.
- **Increase** cooperation among U.S. and allied intelligence services, law enforcement agencies,

and independent experts to track Russian state and oligarch money laundering, corruption, and unfair competition practices.

- **Encourage** U.S. and multinational companies to compete in economically viable and geopolitically significant energy ventures, which Russia is targeting, using diplomatic and security support.
- **Promote** market-viable alternative energy sources and unconventional sources of fuels worldwide to counter strategic dependency on Russian, Iranian, and Venezuelan oil.
- **Expand** security cooperation with Russia’s energy-exporting neighbors and other countries that Russia is targeting for energy cooperation. The U.S. should make use of NATO’s Partnership for Peace program.

**Conclusion.** Russia is being run as a corporation by former senior members of the Russian intelligence community who strive to maximize profits and power by expanding global corporations for exports of raw materials and weapons. The Kremlin has made it clear it intends to diminish America’s standing as a world leader by promoting a “multipolar” world, and by using its military, economic, and “soft” power to re-establish Russia as America’s closest competitor. The smaller energy profits accruing in Moscow from the current global economic downturn can play a role in mitigating Russia’s anti-*status quo* foreign policy, and slow down the growth and modernization of its armed forces. But the U.S. nevertheless needs to develop comprehensive policies to handle Russia’s economic power projection that is aimed at undermining American allies, power, and security interests through a mix of commercial, national security, intelligence, and diplomatic activities.

—Ariel Cohen, Ph.D., is Senior Research Fellow in Russian and Eurasian Studies and International Energy Security, and Lajos F. Szaszdi, Ph.D., was a Consultant in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.

# Background

No. 2235  
January 30, 2009



Published by The Heritage Foundation

## Russia's Drive for Global Economic Power: A Challenge for the Obama Administration

*Ariel Cohen, Ph.D., and Lajos F. Szaszdi, Ph.D.*

Until the recent global financial crisis, Russia's economic revival during the presidency of Vladimir Putin had helped to restore the country's standing as a major player in the world arena. Yet, prosperity has come with some unintended consequences. Russia's invasion of Georgia was fueled by Russia's economic growth and newfound wealth.

This economic comeback is largely the result of Russia's oil and natural gas exports, coupled with the high prices that other Russian commodities have enjoyed in world markets. With the seventh-largest oil reserves and the largest gas reserves in the world, and as the leading exporter of oil and gas, the Kremlin is using its energy exports, revenue from arms and metals sales, and investments abroad in the mining and energy sectors to extend Russia's influence worldwide.

The interruption of gas supply to Ukraine and the rest of Europe in January 2009 resulted in the worst energy crisis in Europe since the Arab Oil Embargo of 1973, and once again raised questions about Russia's reliability as an energy supplier.<sup>1</sup> In the recent past, Russia has already prevented Caspian oil and gas supplies from flowing freely to the European markets; has threatened to disrupt oil exports that pass through Georgian territory when it invaded Georgia last August; has acquired, and is in the process of acquiring, major European energy companies, as well as pipelines, refineries, and other assets in more than a dozen countries. Moscow is also targeting the strategic Middle Eastern oil sector and is displacing Western energy companies operating in OPEC founding member Venezuela.

### Talking Points

- Until the recent global financial crisis, Russia's economic prosperity under Vladimir Putin had helped restore the country as a major world player and as a challenger to Western influence.
- Russia's economic comeback is largely the result of its high-priced oil, natural gas, and metals, and its arms exports, construction, and consumer boom.
- The Kremlin has used energy exports to Europe as a foreign policy tool, most notoriously through threats to disrupt oil and gas exports to countries that oppose Russia's national interests.
- The U.S. should increase cooperation with allied intelligence services, law enforcement agencies, and independent experts to track Russian money laundering, corruption, and unfair competition practices. The Obama Administration should make gathering actionable intelligence on questionable Russian activities a priority.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/RussiaandEurasia/bg2235.cfm](http://www.heritage.org/Research/RussiaandEurasia/bg2235.cfm)

Produced by the Douglas and Sarah Allison  
Center for Foreign Policy Studies  
of the  
Kathryn and Shelby Cullom Davis  
Institute for International Studies

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Beyond that, Russia has dominant global positions in the strategic and precious metals sectors including titanium, platinum, and other precious metals used in aerospace industries, electronics, and military and automotive production. A major Kremlin-connected oligarch owns the world's largest aluminum company and has been accused of corrupt practices in the U.S., Germany, Nigeria, and Guinea, while the Russian banking sector is tied in with organized crime.

Moscow's expanding business interests have made Europe highly—and dangerously—dependent on Russian oil, gas, and raw materials. Russia currently supplies two-thirds of Europe's imported natural gas—42 percent of total European consumption; Central and Eastern European countries depend on Russian gas for more than 90 percent of their needs. By 2030, Europe will import 84 percent of its gas needs.<sup>2</sup> Europe has not developed alternative sources of gas, and has rejected nuclear power and coal. Since natural gas is supplied by pipelines controlled by Gazprom, the Russian state gas monopoly, these countries cannot easily turn to other suppliers. Thus, Europe has tied itself to dependence on a commodity supplier with a track record of geopolitical intimidation as opposed to a free-market relationship.

Severe repercussions for Europe's national security dependence on Russian energy are widely recognized by the European Union and individual countries. Europe has now “stepped up its attempts to reduce its exposure to potential Russian blackmail over energy supplies,” reports Ian Traynor in *The Guardian*. The European Commission unveiled “an ambitious strategy aimed at weakening Russian giant Gazprom's domination of Europe's gas imports.” “We must not sleepwalk into Europe's energy dependence crisis,” said Jose Manuel Barroso, EU Commission President.<sup>3</sup> Russia is trying to replicate this model in other areas as well,

such as electricity and raw-materials exports by state-owned corporations, as demonstrated below.

Russia also aims to become a major energy supplier and provider of raw materials to countries of the Asia-Pacific region, including China, Japan, South Korea, and the United States. Such a goal, if accomplished, will greatly enhance Russian leverage in the Pacific Rim.

## Controlling Eurasia

Russia's war with Georgia was as much about Moscow's plans to annex South Ossetia and Abkhazia as it was to reassert economic domination of the Caucasus by force and prevent additional oil and gas pipelines from being built outside Russian control. Russia sent the signal by temporarily controlling the cargo port of Poti and Georgia's main highway and railway line and by threatening the safety—and thus the viability—of current and future oil and gas pipelines that bypass Russia.

The Russian invasion and partial occupation had the intended effect of persuading Kazakhstan to drop its investment plans for Georgia. The Kazakh state oil and gas company KazMunaiGas announced in September that it would abandon its plan to build an oil refinery in the Georgian port of Batumi, and not long before that, the Kazakh government also announced it would not build a grain-export terminal in the port of Poti. This terminal would have enabled Kazakhstan to export part of its grain production through an alternative route, bypassing Russia.<sup>4</sup>

For years, Russian energy policy was a crafty tool of power projection in Eurasia. Russian state-controlled entities like Gazprom used mysterious, economically useless affiliates to ensnare local political leaders in corruption, thus co-opting them. Examples include Rosukrenergo (with Ukraine) as well as Gazprom-Zeromax in Uzbekistan. Energy deals are

1. Ariel Cohen and Owen B. Graham, “European Security and Russia's Natural Gas Supply Disruption,” Heritage Foundation *WebMemo* No. 2194, January 8, 2009, at <http://www.heritage.org/Research/RussiaandEurasia/wm2194.cfm>.
2. Ian Traynor, “EU Unveils Energy Plan to Reduce Dependence on Russia,” *The Guardian*, November 13, 2008, at <http://www.guardian.co.uk/world/2008/nov/13/eu-russia-energy> (December 30, 2008).
3. *Ibid.*
4. “Kazakhstan Steering a Middle Course between Russia and the West,” *AsiaNews*, September 24, 2008, at <http://www.asianews.it/index.php?l=en&art=13307&geo=3&theme=1&size=A#> (December 30, 2008).

used to entangle the local regimes, ensuring their political dependence on Moscow.

Moscow has not only used its resources and economic prowess to exert its influence in the former Soviet states of Eurasia. Russia's neo-corporatist state<sup>5</sup> is also pursuing an anti-American agenda and challenging the existing global economic system. It seeks control or influence of sectors that are of paramount importance to American and European security, such as special materials like platinum, titanium, and other rare metals; defense technologies, such as the European aircraft manufacturer EADS; and energy resources and infrastructure, such as U.S. Getty, Spain's Repsol, Germany's Ruhr-gas, refineries, and a slew of companies in Germany, Hungary, Bulgaria, Poland, Serbia, Slovakia, and elsewhere. Russia seeks to establish platforms from which it can more easily conduct industrial and classic espionage, money laundering, and other covert activities, and increase political dependency through corruption. Moscow is also seeking influence in the developing world, as well as challenging the independence and security of Europe, including major powers like Germany and Italy, as well as Ukraine and Georgia, in which the United States has national security interests.

### The Tools for Global Cooperation

The U.S. should cooperate with its friends and allies on combating excessive dependency (beyond 25–30 percent) on Russian strategic raw materials and energy exports, such as oil, gas, coal, and electricity. What is needed is a global security system for tracking investment activities by Russia and other anti-Western governments in industries and sectors with defense and security implications.

One of those tools is the Committee on Foreign Investment in the United States (CFIUS). CFIUS is an inter-agency committee of the United States government that reviews the national security implications of foreign investments in U.S. companies or operations. Chaired by the Secretary of the

Treasury, CFIUS coordinates representatives from nine U.S. agencies including the Departments of Defense, State, Commerce, and Homeland Security.

The U.S. Treasury recently published final rules to strengthen security reviews of foreign investments in U.S. businesses. As the former Treasury Secretary Henry Paulson put it, the final regulations are intended to “strengthen the CFIUS process in a manner that reaffirms America’s longstanding policy of openness to investment, consistent with the protection of our national security.”<sup>6</sup> The regulations clarify that transactions in which a foreign entity acquires less than a 10 percent stake in a U.S. business are not automatically exempt from a CFIUS review. Under the new procedures, a foreign investor in a U.S. business considered “critical infrastructure” is encouraged to consult with the CFIUS panel before filing a formal notice. This is a wise step in improving oversight of investments in critical infrastructure, resources, and financial systems on which our nation and our alliances depend.

The U.S. should also increase cooperative efforts among the international intelligence and law enforcement agencies and independent experts to keep track of how the Russian state and oligarchs may be laundering money and engaging in corruption and unfair competition. The Obama Administration should encourage, without dictating investment decisions, U.S. and other multinational companies to compete with Russian companies like Gazprom for pipeline and energy projects, as well as promote alternative market-based sources of energy and unconventional sources of fuels worldwide to counter any over-dependency on energy from countries such as Russia, Iran and Venezuela, which overtly seek to counter the West’s economic and military strength.

### Russia’s Economic March

The geo-economic and geopolitical implications of Russia’s economic power projection abroad cannot be overstated: As the Russian state’s main source

5. Sheldon Richman, “Fascism,” *The Concise Encyclopedia of Economics*, 2008, at <http://www.econlib.org/library/Enc/Fascism.html> (January 13, 2009).

6. Reuters, “U.S. Treasury Finalizes Rules on Security Reviews,” November 14, 2008, at <http://www.reuters.com/article/mergersNews/idUSWAT01048720081114> (December 30, 2008).

of revenues, and as a foreign policy arm, it enables the Kremlin to extend Russia's influence on a global scale. Moscow exercises economic—and political— influence over countries that depend on its resources. Russian exports and investment projects are an instrument for establishing and developing strategic relationships through the export of commodities, arms, and nuclear technology.<sup>7</sup>

Since Vladimir Putin became president in spring of 2000, the Kremlin has backed the formation of “national champions” of the economy, state- or publicly owned corporate giants that are subservient to the government. Initially, the amalgamation of companies into big conglomerates was intended to help Russian companies compete successfully at home and abroad. But the massive corporations favored by the Kremlin soon became instruments of the Russian state's policy to dominate the national economy and to project its power abroad through a trade-based foreign economic policy.

These state and private corporate players are subject to the instructions of the government in both business and geopolitical priorities. So important are such strategic sectors like oil and gas or the military-industrial complex that, together with the big corporations that dominate these sectors—Gazprom, Rosneft, LUKoil, and Rostekhnologii (Russian Technologies)—they constitute one of the pillars of the Russian state, along with the other pillars of power: the military, the intelligence services, the police and law-enforcement agencies, and the government bureaucracy.

Indeed, the Kremlin has been using energy exports as a tool of its foreign policy. The most notorious example of this practice is cutting off or threatening to cut off oil and gas exports to any country that adopts policies that go against Russia's national

interests. A recent example was the September 1, 2008, announcement to reduce the flow of gas to the European Union, reportedly announced by the Russian gas monopoly Gazprom soon after the 27 EU member countries agreed to halt negotiations with Russia for a new partnership agreement. The EU measure came in response to Russia's war against Georgia in August.

In another example of the use of energy exports as a tool of foreign policy, Prime Minister Vladimir Putin, in a veiled threat to Europe, urged on the eve of the same EU meeting that the construction work on the East Siberia–Pacific Ocean (ESPO) oil pipeline, destined to export crude to the Asia–Pacific region markets, be accelerated.<sup>8</sup> The message was clear: If Europe does not want to buy Russian oil, Moscow can sell it to China, South Korea, and Japan. Currently, Europe imports from Russia a third of the oil and 40 percent of the natural gas it consumes.<sup>9</sup>

This is no coincidence, since Russia's global posture is directed by now–Prime Minister Putin and his associates—KGB veterans. As Putin's former economic adviser Andrey Illarionov described it, the Russian Federation is being run as a corporation.<sup>10</sup> Today, this “Russia Inc.” operates essentially with a hierarchical structure in which Prime Minister Putin is the equivalent of the CEO and chairman of the board, with President Dmitry Medvedev as a member and chief operating officer. While President Medvedev is a civilian, Putin and many of his close allies are alumni of the Russian intelligence community. In a study conducted in 2006 by the Center for the Study of Elites at the Russian Academy of Sciences, of 1,016 senior government officials and elected members of Parliament, 26 percent belonged to the KGB or the post-Soviet intelligence

7. Andrei Denisov, “The Gains and Failures of the Energy Superpower,” *Russia in Global Affairs*, No. 2 (April–June 2008), at <http://eng.globalaffairs.ru/numbers/23/1197.html> (December 30, 2008).
8. Damien McElroy, “Vladimir Putin Demands Asia Pipeline as Warning to Europe,” *Telegraph.co.uk*, August 31, 2008, at <http://www.telegraph.co.uk/news/worldnews/europe/russia/2656372/Vladimir-Putin-demands-Asia-pipeline-as-warning-to-Europe.html> (December 31, 2008).
9. Jon Swaine, “Georgia: EU Leaders Set to Condemn Russia,” *Telegraph.co.uk*, September 1, 2008, at <http://www.telegraph.co.uk/news/worldnews/europe/georgia/2659810/Georgia-EU-leaders-set-to-condemn-Russia.html> (December 1, 2008).
10. Andrey Illarionov, “Russia Inc.” *The New York Times*, February 4, 2006, at <http://www.nytimes.com/2006/02/04/opinion/04illarionov.html> (December 31, 2008).

agencies. That proportion grew to 78 percent when individuals with “unexplained gaps in résumés, unlikely career paths or service in organizations affiliated with the KGB” were included.<sup>11</sup>

More than five years ago it was suggested that up to 6,000 active duty and reserve members of the Russian intelligence community occupied positions of influence in the state.<sup>12</sup> It can be concluded that the alumni of the Russian intelligence apparatus control the state by controlling the government’s civilian bureaucracy, the military, and the country’s main economic sectors. As Daniel Treisman, professor of political science at the University of California, Los Angeles, pointed out, in Russia “the security forces’ takeover of corporate boardrooms is coming to define Putin’s regime,”<sup>13</sup> during his presidency and premierships.

Moscow business insider Oleg Shvartsman suggested that the goal of the members of the Russian intelligence services who occupy senior positions in the corporate world is to gain wealth for themselves in addition to global power for Russia through business expansion abroad. There have

been revelations by a businessman managing the assets of members of the Presidential Administration from the so-called “siloviki” (men of power). These are officials with links to the FSB (the Federal Security Service and the main successor to the KGB) and SVR (the Foreign Intelligence Service, formerly the KGB’s First Main Directorate) through the obscure Finansgroup company which claims assets worth around \$3.2 billion.<sup>14</sup> Thus, huge amounts of money in the hands of the former members of the Russian intelligence apparatus could be employed for personal use, while vast state revenues can be directed to fund clandestine operations and other state activities.

Massive money laundering operations through the Bank of New York<sup>15</sup> and Republic Bank of New York are well documented and were the subject of congressional hearings.<sup>16</sup> According to publications in the Russian media, the Austrian Raiffeisen bank is reportedly involved in suspicious activities in the Russian gas sector and other questionable business transactions with ties to intelligence services.<sup>17</sup> Back in 2004, Czech counterintelligence sources

11. Peter Finn, “In Russia, A Secretive Force Widens,” *The Washington Post*, December 12, 2006, at [http://www.washingtonpost.com/wp-dyn/content/article/2006/12/11/AR2006121101434\\_pf.html](http://www.washingtonpost.com/wp-dyn/content/article/2006/12/11/AR2006121101434_pf.html) (December 31, 2008).
12. “Chekists in the Corridors of Power,” *Novaya Gazeta*, in *Johnson’s Russia List*, No. 50 (July 18, 2003), at <http://www.cdi.org/russia/johnson/7255-4.cfm> (December 31, 2008). See also Gary K. Busch, “A Spectre is Haunting Europe,” *Ocnus.Net*, November 14, 2008, at [http://www.ocnus.net/artman2/publish/Editorial\\_10/A\\_Spectre\\_is\\_Haunting\\_Europe.shtml](http://www.ocnus.net/artman2/publish/Editorial_10/A_Spectre_is_Haunting_Europe.shtml) (December 31, 2008).
13. Daniel Treisman, “Putin’s Silovarchs,” *Orbis*, 51, No. 1 (2007), p. 142, quoted in Brian D. Taylor, “Russia’s Power Ministries: Coercion and Commerce,” Institute for National Security and Counterterrorism, Syracuse University, October 2007, at [http://insct.syr.edu/Research%20and%20Events/Taylor\\_Russia%20Power%20Ministries.pdf](http://insct.syr.edu/Research%20and%20Events/Taylor_Russia%20Power%20Ministries.pdf) (December 31, 2008).
14. See interview of Oleg Shvartsman, “For Us, the Party Is Represented by the Power Bloc Headed by Igor Ivanovich Sechin,” *Kommersant*, December 3, 2007, at [http://www.kommersant.com/p831089/r\\_530/Oleg\\_Shvartsman\\_discloses\\_his\\_companys\\_relations\\_with\\_power\\_ministries/](http://www.kommersant.com/p831089/r_530/Oleg_Shvartsman_discloses_his_companys_relations_with_power_ministries/) (December 31, 2008); Luke Harding, “Putin, the Kremlin Power Struggle and the \$40bn Fortune,” *The Guardian*, December 21, 2007, at <http://www.guardian.co.uk/world/2007/dec/21/russia.topstories3> (December 31, 2008).
15. M. Corey Goldman, “Watching Overseas Funds: Alleged Russian Mob Money Laundering Raises Questions about Bank Safeguards,” *CNNMoney*, September 1, 1999, at [http://money.cnn.com/1999/09/01/worldbiz/russia\\_banking](http://money.cnn.com/1999/09/01/worldbiz/russia_banking) (December 31, 2008); Timothy L. O’Brien with Raymond Bonner, “Bank in Laundering Inquiry Courted Russians Zealously,” *The New York Times*, August 20, 1999, at <http://query.nytimes.com/gst/fullpage.html?res=9D06E1DA1538F933A1575BC0A96F958260> (December 31, 2008).
16. Thomas A. Renyi, Chairman of the Board of the Bank of New York, testimony before the Banking and Financial Services Committee, U.S. House of Representatives, September 22, 1999, at [http://www.russianlaw.org/renyi\\_congress.htm](http://www.russianlaw.org/renyi_congress.htm) (December 3, 2008). See also Ariel Cohen, “Russian Money Laundering: Questions Congress Should Ask,” Heritage Foundation *Backgrounder* No. 1323, September 22, 1999, <http://www.heritage.org/research/russiaandeurasia/bg1323.cfm>.
17. Natalia Morar, “Officials Are Taking Money Away to the West,” *New Times*, No. 15, May 21, 2007, p. 6, in Russian, at [http://newtimes.ru/magazine/2007/issue015/art\\_0023.xml](http://newtimes.ru/magazine/2007/issue015/art_0023.xml) (December 3, 2008).

revealed that the SVR invested “huge sums in local real estate, hotels, casinos, and entertainment complexes” in the Czech Republic, probably in order to obtain front companies for intelligence operations, to strengthen the SVR’s (and the Russian state’s) influence in the country, and possibly as alternative sources of funding outside of the regular control of the Russian leadership.<sup>18</sup>

It is little wonder that earlier last year U.S. Attorney General Michael Mukasey cited Russia and other Eurasian nations as places where “organized criminals control significant positions in the global energy and strategic-materials markets. They are expanding their holdings in those sectors, which corrupts the normal functioning of these markets and may have a destabilizing effect on U.S. geopolitical interests.”<sup>19</sup> He revealed that the U.S. government has re-assembled its Organized Crime Council to combat a new “hybrid criminal problem” involving alliances between foreign intelligence agencies and criminal groups. Mr. Mukasey said law-enforcement officials have “grave concern” about “so-called ‘iron triangles’ of corrupt business leaders, corrupt government officials and organized criminals.”<sup>20</sup>

### Beyond Personal Wealth

The Russian leadership’s ambition surpassed the drive for self-enrichment a long time ago.

Putin and then-Defense Minister Sergey Ivanov meant every word when they set the goal for Russia to become a world energy superpower. In 2006, Vladislav Surkov, Deputy Head of the Presidential Administration, aide to President Putin and ideological chief of Putin’s regime, declared that “the idea of Russia as an energy superpower is...fully consistent” with the country becoming competitive economically.<sup>21</sup> Yet, ever cautious, at that year’s Valdai Club meeting, President Putin rejected the idea that Russia wanted to become an “energy superpower,” assuring the audience that his government wanted instead to provide stable energy supplies to world markets.<sup>22</sup>

A key instrument in the dream of Russia as an energy superpower is Gazprom, the world’s largest gas company and Russia’s state-owned gas monopoly. Gazprom was the Kremlin’s principal tool in the two gas supply interruptions to Europe, which were triggered by the gas prices disputes between Moscow and Kyiv.<sup>23</sup> Gazprom is rated as the company with the highest capitalization in Russia.<sup>24</sup> It is intended to become the core of a gas counterpart to OPEC, and its close energy ties with Iran, which has the second-largest gas reserves on earth, threaten market access and competitiveness, especially in the liquefied natural gas (LNG) sector, and as a result, stability of the world economy.

18. “...As Reports Indicate Increased Russian Spy Activity in New EU States,” Radio Free Europe/Radio Liberty, May 14, 2004, at <http://www.rferl.org/content/Article/1143159.html> (December 31, 2008).

19. Susan Schmidt and Glenn R. Simpson, “Arms-Control Group Tied to Kremlin Paid Wife of Weldon Aide,” *The Wall Street Journal*, June 10, 2008, p. 4, at <http://www.military-quotes.com/forum/house-ex-staffer-caught-probe-t63542.html> (December 31, 2008), and “House Ex-Staffer Caught in Probe,” Citizens for Ethics, quoting *The Wall Street Journal* report of June 10, 2008, at <http://citizensforethics.org/node/31931> (December 31, 2008).

20. *Ibid.*

21. “Putin Aide Sees ‘Color Revolutions’ as Threat to Russian Sovereignty,” Radio Free Europe/Radio Liberty, March 6, 2006, at <http://www.rferl.org/content/Article/1143587.html> (December 31, 2008), and Victor Yasmann, “Russia: Ideological Doctrine Paves Kremlin’s Course,” Radio Free Europe/Radio Liberty, August 4, 2006, at <http://www.rferl.org/content/article/1070339.html> (December 31, 2008).

22. Mary Dejevsky, “Putin Promises Russia Will Not Act Like an ‘Energy Superpower,’” *The Independent*, September 11, 2006, at <http://www.independent.co.uk/news/world/europe/putin-promises-russia-will-not-act-like-an-energy-superpower-415483.html> (December 31, 2008).

23. Cohen and Graham, “European Security and Russia’s Natural Gas Supply Disruption.”

24. “Gazprom, LUKOIL Biggest in Russia,” *Kommersant*, October 6, 2008, at [http://www.kommersant.com/p-13340/r\\_529/Russias\\_largest\\_companies/](http://www.kommersant.com/p-13340/r_529/Russias_largest_companies/) (December 31, 2008). See also Expert RA Rating Agency, “Index of Companies Listed in the Ranking,” “Expert-400,” at <http://www.raexpert.org/ratings/expert400/2007/index/> (December 31, 2008) and Expert RA Rating Agency, “Capitalization-200,” “Expert-400,” at <http://www.raexpert.org/ratings/expert400/2007/table2/> (December 31, 2008).



The recent agreement between Russia, Iran, and Qatar to form a “Gas Troika” (in the works for at least a year and a half) that would meet several times a year, could lead to unfair business practices, such as “the exchange of information about prices, development schedules and investment plans.”<sup>25</sup> Russia, Iran, and Qatar hold 56 percent of global gas reserves, and the Iranian oil minister declared in October of last year that the three countries have reached an agreement on the formation of a “gas OPEC.”<sup>26</sup> Less than a week later, Alexei Miller, Gazprom’s deputy chairman of the board of directors and chairman of the management committee, said that the Gas Troika could become a formal organization in November of 2008.<sup>27</sup> Later, Anatoly Yanovsky, deputy energy minister, disclosed that at a December 23 summit in Moscow, 16 gas-producing countries, including the host nation, plan to sign a charter establishing an “organization of gas exporting countries.”<sup>28</sup>

**A Perfect Storm.** The international financial crisis has seemingly put a stop to Russia’s dynamic efforts to expand its economic interests worldwide. Prime Minister Putin wrongly blamed the U.S. exclusively for the meltdown, which since May has affected Russia’s stock exchanges, the RTS and the

MICEX, with Russia’s indexes losing thus far as much as 70 percent of their value.<sup>29</sup>

Several observers pointed out that the Russian invasion of Georgia made the financial problem worse, triggering a further outflow of capital out of fear of instability. Other problems have combined to create a perfect financial storm against Russia: International banks called loans of powerful oligarchs who before the crisis and their loss in value used their company shares as collateral for foreign loans; and oil prices and those of other commodities fell, including metals, causing grave financial damage to Russian state financing.<sup>30</sup>

Russia’s financial benefits accruing from foreign trade are altering its international behavior. In early August 2008, the Russian government’s Reserve Fund and National Welfare Fund held the equivalent of \$162 billion, while its hard currency and gold reserves summed their highest point on August 8—the day Russian forces invaded Georgia—with more than \$597 billion, the third-largest reserves in the world after China and Japan.<sup>31</sup> By December 5, Russia’s hard currency and gold reserves were down to \$437 billion, yet they lost \$31 billion in one week from October 17 to 24, and

25. Carl Mortished, “Gas Cartel Could Have a Significant Impact on Europe,” *The Times*, October 22, 2008, at <http://business.timesonline.co.uk/tol/business/columnists/article4988242.ece> (December 31, 2008); Russian News Information Agency Novosti, “Russia, Iran, Qatar to Hold Regular Natural Gas Dialogue,” October 21, 2008, at <http://en.rian.ru/russia/20081021/117866397.html> (December 31, 2008); “Russia, Iran, Qatar Agree on Gas OPEC,” *Kommersant*, October 21, 2008, at <http://www.kommersant.com/page.asp?id=-13421> (December 31, 2008).
26. Mortished, “Gas Cartel Could Have a Significant Impact on Europe”; “Russia, Iran, Qatar Agree on Gas OPEC”; Novosti, “Russia, Iran, Qatar to Hold Regular Natural Gas Dialogue.”
27. “Big 3 May Become Gas Market Fixture,” *Kommersant*, October 27, 2008, at [http://www.kommersant.com/p-13441/r\\_529/natural\\_gas\\_export\\_and\\_sale/](http://www.kommersant.com/p-13441/r_529/natural_gas_export_and_sale/) (December 31, 2008); Gazprom, “About/Board of Directors,” at <http://www.gazprom.com/eng/articles/article8823.shtml> (October 27, 2008).
28. “Russia Says Gas Troika Won’t Set Up Output Quotas,” *SILObreaker*, November 27, 2008, at [http://www.silobreaker.com/DocumentReader.aspx?Item=5\\_929753603](http://www.silobreaker.com/DocumentReader.aspx?Item=5_929753603) (December 31, 2008).
29. Russian News Information Agency Novosti, “Russian Government to Take New Measures to Fight Credit Crunch,” October 26, 2008, at <http://en.rian.ru/russia/20081026/117954502.html> (December 31, 2008); Suzy Jagger, “Vladimir Putin Blames America for World Economic Crisis,” *The Times*, October 2, 2008, at <http://business.timesonline.co.uk/tol/business/markets/russia/article4863967.ece> (December 31, 2008); “RTS, MICEX Resumed Trading After 3hr Break,” *Kommersant*, October 7, 2008, at [http://www.kommersant.com/p-13356/r\\_500/RTS\\_MICEX\\_resume/](http://www.kommersant.com/p-13356/r_500/RTS_MICEX_resume/) (December 31, 2008); Tony Halpin, “Russia Is Well Prepared to Survive Financial Crisis Says Putin,” *The Times*, October 20, 2008, at <http://business.timesonline.co.uk/tol/business/markets/russia/article4981200.ece> (December 31, 2008).
30. Russian News Information Agency Novosti, “Russian Government to Take New Measures to Fight Credit Crunch”; Jagger, “Vladimir Putin Blames America for World Economic Crisis”; Halpin, “Russia Is Well Prepared to Survive Financial Crisis Says Putin.”

\$17.9 billion in the week of December 5.<sup>32</sup> These reserves are expected to continue to decline as the Russian government uses them to rescue the national economy from the effects of the international financial crisis, and if oil prices remain below \$70 a barrel.<sup>33</sup>

The effects of the financial crisis in Russia have left many Russian companies and banks unable to repay their foreign loans without state intervention. Thus, the Russian Central Bank has provided liquidity to Russia's state development bank, Vnesheconombank (VEB): \$50 billion to help enterprises in financial trouble pay their foreign creditors. This situation is allowing the Russian government to take over failing banks and acquire stakes in struggling companies, strengthening the power and influence of the state.<sup>34</sup>

The crisis has also caused Russia's most powerful billionaire businessmen, with close links to the

Kremlin, to incur combined losses of up to \$230 billion. The one with the highest losses according to *Forbes* is Oleg Deripaska, who, until the crisis, was the wealthiest man in Russia and who had lost more than \$16 billion by early October of an estimated \$28 billion fortune before the crisis. Deripaska is the owner of RUSAL, the largest aluminum and alumina producer in the world.<sup>35</sup> Other examples include Roman Abramovich, who by the third week of October lost over \$20 billion after his shares in steelmaker Evraz plummeted. The owner of steel producer Novolipetsk Steel (NLMK), Vladimir Lisin, lost \$22 billion by early October, and the fortune of Severstal's Alexei Mordashov went down from \$21.2 billion by March 2008 to \$5.3 billion by early October.<sup>36</sup> LUKoil's owner Vagit Alekperov's value of his 20 percent stake in the oil company fell from \$19.5 billion to \$7.2 billion by early October.<sup>37</sup>

31. "Business in Brief: Oil Funds at \$162Bln," *The Moscow Times*, August 4, 2008, at <http://www.moscowtimes.ru/articles/detail.php?ID=369503&print=Y> (December 31, 2008); "Ruble Stuck in the Trenches," *Kommersant*, October 24, 2008, at [http://www.kommersant.com/p1046260/Central\\_Bank\\_of\\_Russia\\_ruble\\_policy/](http://www.kommersant.com/p1046260/Central_Bank_of_Russia_ruble_policy/) (December 31, 2008).
32. *Ibid.*, and Russian News Information Agency Novosti, "Russian International Reserves Down \$31 Bln in Week," October 30, 2008, at <http://en.rian.ru/business/20081030/118027896.html> (December 31, 2008); Emma O'Brien, "Russia Devaluation Gathers Pace as Central Bank Loosens Control," *Bloomberg.com*, December 11, 2008, at <http://www.bloomberg.com/apps/news?pid=20601087&sid=aRhI2KitimCs&refer=home> (December 31, 2008).
33. Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin."
34. Russian News Information Agency Novosti, "Russian Government to Take New Measures to Fight Credit Crunch"; Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin"; Russian News Information Agency Novosti, "Russia's Vnesheconombank Approves Takeover of Globex," October 27, 2008, at <http://en.rian.ru/business/20081027/117972964.html> (December 31, 2008); David Robertson, "Russian Fears Grow of State Control," *The Times*, October 31, 2008, at <http://business.timesonline.co.uk/tol/business/markets/russia/article5050898.ece> (December 31, 2008).
35. David Robertson, "Russia's Rich Forced to Sell Assets to Repay Loans," *The Times*, October 22, 2008, at <http://business.timesonline.co.uk/tol/business/markets/russia/article4988116.ece> (December 31, 2008); Yuriy Humber, Greg Walters, and Maria Kolesnikova, "Abramovich, Deripaska, Oligarchs Lose \$230 Billion (Update1)," *Bloomberg.com*, October 10, 2008, at <http://www.bloomberg.com/apps/news?pid=20670001&refer=home&sid=aIAWDrA4RSTQ> (December 31, 2008); "The World's Billionaires: #9 Oleg Deripaska," *Forbes.com*, March 5, 2008, at [http://www.forbes.com/lists/2008/10/billionaires08\\_Oleg-Deripaska\\_UCP9\\_print.html](http://www.forbes.com/lists/2008/10/billionaires08_Oleg-Deripaska_UCP9_print.html) (December 31, 2008); "Magazine Counts Billionaires' Losses," *Kommersant*, October 20, 2008, at [http://www.kommersant.com/p-13417/financial\\_crisis\\_billionaires](http://www.kommersant.com/p-13417/financial_crisis_billionaires) (December 31, 2008); Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin"; United Company RUSAL, "Key facts and Figures," at <http://www.rusal.ru/en> (October 27, 2008).
36. Robertson, "Russia's Rich Forced to Sell Assets to Repay Loans"; Humber, Walters, and Kolesnikova, "Abramovich, Deripaska, Oligarchs Lose \$230 Billion (Update1)"; "Magazine Counts Billionaires' Losses," *Kommersant*; Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin"; "The World's Billionaires: #18 Alexei Mordashov," *Forbes.com*, March 5, 2008, at [http://www.forbes.com/lists/2008/10/billionaires08\\_Alexei-Mordashov\\_QW68\\_print.html](http://www.forbes.com/lists/2008/10/billionaires08_Alexei-Mordashov_QW68_print.html) (December 31, 2008); Evraz, "Assets Map," at <http://www.evraz.com/business/> (December 31, 2008); NLMK, "Acquisition of International Steel Trading Facilities," January 2008, at [http://www.nlmksteel.com/StandardPage\\_766.aspx](http://www.nlmksteel.com/StandardPage_766.aspx) (December 31, 2008); Severstal North America, "Parent Company: Severstal—a Global Leader in the Steel Industry," at <http://www.severstalna.com/about-us/parent-company.html> (December 31, 2008).

All these private-sector companies with close Kremlin ties are involved in international trade and investment activities, serving as sources of tax revenues and hard currency for the Russian state, and as tools of the Kremlin to expand Russia's influence worldwide. The Kremlin might use this opportunity as well to try to gain controlling stakes of private companies that are in financial trouble, thus expanding the state's commanding role in the national economy and in the long term give it further resources and power, enabling foreign adventurism.

Despite the fact that it will be cancelling plans for more drilling and oil refining, private oil company LUKoil still intends to buy a 30 percent stake in Repsol, the Spanish national oil company, as well as a refinery in Sicily, and is putting together a \$1 billion loan for that purpose.<sup>38</sup> It seems that the national corporate champions, such as LUKoil or Gazprom might see their expanding investment plans at home or abroad shelved due to lower oil prices, yet this is likely to be a temporary setback, depending on how quickly the international financial markets in general and foreign investor confidence in Russia in particular recover.

Yet, Russian businesses are feeling the brunt of the crisis. The abysmal loss of value of Russian banks and companies' shares has led Bloomberg to declare the stocks of Russian companies as the cheapest in the world. Indeed, there seem to be fears in Russian

nationalist circles that the low value of Russian companies' stakes could lead to free-for-all acquisitions of Russian stocks by Western financial interests. To avoid this outcome, the Russian state, through its banks like VEB and institutions like the Deposit Insurance Agency, is providing the loans and guarantees needed by Russian banks and companies in distress. It is also using them to take control of failed banks.<sup>39</sup> But even the Russian state itself could go broke if the price of oil continues to fall.

### Budgetary Woes

This petroleum windfall is also being used to win the loyalty of some European politicians. Such arrangements benefit Russian energy interests, as in Germany with regard to the Nord Stream gas pipeline consortium chaired by former chancellor Gerhard Schroeder for an annual compensation of 1,000,000 euros (about \$1,270,000 in U.S. dollars).<sup>40</sup> Nord Stream also hired the Finnish prime minister as a consultant, triggering concerns in Europe about spreading corruption.<sup>41</sup> An extremely expensive project, the Nord Stream pipeline would reach from Russia along the Baltic Sea bottom to Germany, bypassing the Baltic states and Poland and denying them transit revenue, with spurs to the Netherlands and France. In Bulgaria, Hungary, Serbia, and Austria, the planned—and even more expensive—South Stream gas pipeline would stop the EU- and U.S.-backed Nabucco gas pipeline,

37. Humber, Walters, and Kolesnikova, "Abramovich, Deripaska, Oligarchs Lose \$230 Billion (Update1)."

38. "Gazprom Neft to Slash Investment Program, LUKOIL to Shelve Refining Projects," *Kommersant*, October 29, 2008, at [http://www.kommersant.com/p-13471/LUKOIL\\_Gazprom\\_Neft\\_shelve/](http://www.kommersant.com/p-13471/LUKOIL_Gazprom_Neft_shelve/) (December 31, 2008).

39. "Stocks of Russia's Companies Called the Cheapest Worldwide," *Kommersant*, October 27, 2008, at [http://www.kommersant.com/p-13445/Cheapest\\_stock\\_/](http://www.kommersant.com/p-13445/Cheapest_stock_/) (December 31, 2008); Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin"; Russian News Information Agency Novosti, "Russian Government to Take New Measures to Fight Credit Crunch." On VEB's ties to Russian intelligence, see Julian Evans, "Russia Eager to Appoint Foreign Fund Manager for Petrodollars," *The Times*, December 15, 2006, at [http://www.timesonline.co.uk/tol/sport/football/european\\_football/article755008.ece](http://www.timesonline.co.uk/tol/sport/football/european_football/article755008.ece) (December 31, 2008), "Instead of Eltsin's 'Family' the Country Is Being Plundered by Putin's 'Team' and the Matter Is Being Done Much More Profoundly," *Forum.msk.ru*, at <http://www.forum-msk.ru/english/print.html?id=18238> (January 13, 2009). Petr Mikhailovich Fradkov, the elder son of former Prime Minister Mikhail Fradkov, now director of the SVR, is deputy chairman of VEB. See Vnesheconombank, "Fradkov Petr Mikhailovich," at [http://www.veb.ru/en/about/governance/board/chairman\\_7](http://www.veb.ru/en/about/governance/board/chairman_7) (December 21, 2008).

40. "EU Says Gas Supply Must Be Restarted as Arguments About Observers Continue," Radio France International, January 9, 2009, at [http://www.rfi.fr/actuen/articles/109/article\\_2609.asp](http://www.rfi.fr/actuen/articles/109/article_2609.asp) (January 12, 2009).

41. "Nord Stream Consortium Hires Former Finnish Premier," Deutsche Presse-Agentur, August 15, 2008, at [http://www.downstreamtoday.com/news/articles/200808/Nord\\_Stream\\_Consortium\\_Hires\\_Former\\_Finn\\_12384.aspx](http://www.downstreamtoday.com/news/articles/200808/Nord_Stream_Consortium_Hires_Former_Finn_12384.aspx) (January 13, 2009).

which bypasses Russia. The cooperation of Schroeder and Hungarian Prime Minister Ferenc Gyurcsany is key in implementing Russian projects that undermine Europe's security of energy supply.

The anti-competitive practices of Russian companies are spreading in the West and are undermining the rule of law as well as sound economic practices and business ethics. Gazprom, Rosneft, and their subsidiaries negotiate and make energy deals with foreign energy companies.<sup>42</sup> Such opaque business partnerships are shrouded in secrecy, politicize the energy business, and are devoid of free and fair competition. Worse, the opaque nature of such agreements between state energy companies leaves an ample margin for corrupt practices that violate both the law and business ethics. One notorious example are the allegations made against the Austrian Raiffeisen bank, which has been accused by the Russian press of participating in a money laundering scheme that sent capital out of Russia and that involved senior Russian government officials with links to oil companies and ties to the FSB.<sup>43</sup>

### What Russia Wants: "New World System"

Russia needs its oil price to be at least \$70 a barrel in 2009 to avoid falling into budget deficits.<sup>44</sup> Its

recent talks with OPEC may be directed at coordinating efforts to reduce oil production and thus raising the price of oil, a goal also pursued in earnest by OPEC members Iran and Venezuela, whose national budgets depend on \$70 a barrel to balance their budgets.<sup>45</sup> The budget deficit may also constrain some foreign policy tools Russia uses.

Attending an OPEC meeting in Vienna in September 2008, Russian Deputy Prime Minister Igor Sechin, a friend of Putin's, said that "OPEC is one of Russia's key partners on the global oil market" and that "it is very important for us to create mechanisms of regular dialogue" with the oil exporting organization.<sup>46</sup>

With Russia and OPEC responsible for a combined total of 51 percent of the world's oil,<sup>47</sup> Moscow's cooperation with OPEC to coordinate oil prices and production quotas would be a requisite for the further expansion of Russia's influence in the world. Even though the idea of Russia joining OPEC has been rejected by Russian officials, one of LUKoil's vice presidents declared recently that Russian membership of OPEC "will be only good for Russia" for "the future of the Russian industry and [oil] price stability."<sup>48</sup> Cooperation with OPEC and the formation of a gas cartel are consistent with one of the objectives enunciated in the recent Foreign Policy Concept of the Russian Fed-

42. Examples include Gazprom's deals with Austria's OMV, France's Total and Suez-Gaz de France, Germany's BASF/Wintershall and E.ON, Italy's Eni and Enel, to name a few.

43. Natalia Morar, "Sensational Details Have Appeared in the Case About the Laundering of Large Sums by Russian Officials through the Bank 'DISKONT' and the Austrian 'Raiffeisen,'" *New Times*, No. 16, May 28, 2007, p. 12, in Russian, at [http://newtimes.ru/magazine/2007/issue016/art\\_0018.xml](http://newtimes.ru/magazine/2007/issue016/art_0018.xml) (January 10, 2009); Robert Amsterdam, "Raiffeisen's Russia Scandal—Part II," from the Robert Amsterdam: Perspectives on Global Politics and Business Web site, June 5, 2007, at [http://www.robertamsterdam.com/2007/06/raiffeisens\\_russia\\_scandal\\_par\\_1.htm](http://www.robertamsterdam.com/2007/06/raiffeisens_russia_scandal_par_1.htm) (December 31, 2008).

44. Halpin, "Russia Is Well Prepared to Survive Financial Crisis Says Putin."

45. "Financial Crisis Reaches Persian Gulf," *Kommersant*, October 27, 2008, at [http://www.kommersant.com/p1048244/world\\_economic\\_crisis\\_oil\\_prices](http://www.kommersant.com/p1048244/world_economic_crisis_oil_prices) (December 31, 2008).

46. Robin Pagnamenta and Angela Jameson, "Opec Plans Closer Links with Russia to Control Half of the World's Oil Supplies," *The Times*, September 11, 2008, at [http://business.timesonline.co.uk/tol/business/industry\\_sectors/natural\\_resources/article4727088.ece](http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article4727088.ece) (December 31, 2008); "Russia to Share Prices with OPEC," *Kommersant*, September 11, 2008, at [http://kommersant.com/p1023903/r\\_528/OPEC\\_price/](http://kommersant.com/p1023903/r_528/OPEC_price/) (December 31, 2008); ITAR-TASS, "Russia Should Develop Strategic Partnership with OPEC—Sechin," September 10, 2008, at <http://www.itar-tass.com/eng/prnt.html?NewsID=13056409> (September 11, 2008); Richard Wachman, "Russia's Opec Bearhug Is Something to Worry About," *The Observer*, September 14, 2008, at <http://www.guardian.co.uk/business/2008/sep/14/oil.mergersandacquisitions/print> (December 31, 2008); "OPEC Welcomes Russia," *Kommersant*, September 25, 2008, at [http://www.kommersant.com/p-13286/r\\_528/OPEC\\_Russia](http://www.kommersant.com/p-13286/r_528/OPEC_Russia) (December 31, 2008); Russian News Information Agency Novosti, "Russia Plans to Use Oil Output Forecast to Influence World Price," September 25, 2008, at <http://en.rian.ru/russia/20080925/117093231-print.html> (December 31, 2008).

47. Catrina Stewart, "OPEC Won't Ask Russia for Production Cuts," *International Business Times*, October 21, 2008, at <http://www.ibtimes.com/articles/20081021/opec-wont-ask-russia-for-production-cuts.htm> (December 31, 2008).

eration, which announced that Russia “strengthens strategic partnership with the leading producers of energy resources.”<sup>49</sup>

Russia aims to challenge the current international financial system dominated by the U.S. and Western industrialized countries. At the St. Petersburg Economic Summit in 2007, President Putin called for a new world economic framework based on regional alliances, relegating Bretton Woods-era global institutions like the International Monetary Fund and the World Bank to the sidelines. He demanded that the new system reflect the rising power of emerging market economies like Russia, China, India, and Brazil, as well as the decline of the established powers: the United States, Japan, and Western European countries.<sup>50</sup>

Moscow is establishing “favorable political conditions for diversifying Russia’s presence in the world markets through expanding the export range and geography of foreign economic and investment links of Russia.”<sup>51</sup> At the same time, the Kremlin is promoting a multilateral, state-driven approach to the international economic and financial system to regulate the free markets globally, and using the ruble as the dominant currency in the Commonwealth of Independent States.

Speaking at the recent conference on the international financial crisis in Evian, France, Russian Pres-

ident Medvedev said that “the formation of new financial centers and strong regional currencies will act as new stability factors” in the face of the crisis. While suggesting that the current international U.S.-based “unipolar economic model” is inefficient, Medvedev alluded to the “multi-polar nature of the world and the complexity of globalization.” Medvedev is proposing that “the global financial architecture be changed, the role of the current international institutions be reviewed, and new ones created to guarantee stability.”<sup>52</sup> “It will take years to shape a new world system,” Medvedev said.<sup>53</sup>

Another goal seems to be replacing the dollar in Russia’s international trade transactions. Putin has proposed this goal to his Chinese counterpart Wen Jiabao for bilateral trade between Russia and China, which was estimated to reach \$50 billion in 2008.<sup>54</sup>

Russia is following a multilateral approach to challenge the current international financial and trading system, as part of its overall strategy of pursuing a multilateral world system, through the Shanghai Cooperation Organization,<sup>55</sup> OPEC, a new gas OPEC, or new international financial bodies that would include China, India, EU member states, and challengers of the established international order such as Iran and Venezuela.

Influencing the international prices of oil and gas would be key for the economic recovery of the

- 
48. Vladimir Soldatkin and Katya Golubkova, “UPDATE 1-LUKOIL Says Russia Could Join OPEC, Trim Output,” *Reuters*, October 29, 2008, at <http://www.reuters.com/article/marketsNews/idUSLT20268320081029> (December 31, 2008); LUKOIL Oil Company, “Management Committee,” at [http://www.lukoil.com/back/staff\\_\\_head\\_6\\_5dep\\_21\\_.html](http://www.lukoil.com/back/staff__head_6_5dep_21_.html) (October 29, 2008).
49. “Foreign Policy Concept of the Russian Federation,” President of Russia Web site, July 12, 2008, at <http://www.kremlin.ru/eng/text/docs/2008/07/204750.shtml> (December 31, 2008).
50. Andrew E. Kramer, “Putin Wants New Economic ‘Architecture,’” *International Herald Tribune*, June 10, 2007, at <http://www.ihf.com/articles/2007/06/10/business/forum.php> (December 31, 2008).
51. “Foreign Policy Concept of the Russian Federation,” President of Russia Web site.
52. Interfax, “Medvedev Proposes Forming New Financial Centers, Strong Regional Currencies,” Johnson’s Russia List, October 8, 2008, at <http://www.cdi.org/russia/johnson/2008-183-7.cfm> (December 31, 2008); Adrian Blomfield, “Russian President Dmitry Medvedev Calls for Europe to Freeze Out US,” *The Telegraph*, October 8, 2008, at <http://www.telegraph.co.uk/news/worldnews/europe/russia/3159998/Russian-president-Dmitry-Medvedev-calls-for-Europe-to-freeze-out-US.html> (December 31, 2008).
53. “Medvedev Suggests Steps in Reform of World Financial System,” ITAR-TASS, October 31, 2008, at <http://www.itar-tass.com/eng/prnt.html?NewsID=13231197> (December 31, 2008).
54. Russian News and Information Agency Novosti, “PM Putin Suggests Russia, China Ditch Dollar in Trade Deals,” October 28, 2008, at <http://en.rian.ru/russia/20081028/117991229.html> (December 31, 2008).
55. Russian News and Information Agency Novosti, “PMs from Shanghai Group to Discuss Global Financial Crisis,” October 29, 2008, at <http://en.rian.ru/world/20081029/118010134.html> (December 31, 2008).

country as well as for funding military and industrial modernization and economic development programs at home.

Before the international financial crisis hit Russia, an increasing share of its resources had been directed at the rearming of the military with modern weapon systems, and at increases in funding of the Ministry of the Interior, and of the security and intelligence services, such as the FSB domestic security service, the SVR foreign intelligence service, the GRU military intelligence, and the Border Guards under FSB supervision. Before the crisis, the Kremlin planned to raise defense spending by 50 percent over three years, deploy an army rapid reaction force at a high level of operational readiness, and construct new nuclear-powered ballistic missile submarines.<sup>56</sup> It remains to be seen if the government's financial stabilization efforts at home will reduce spending in defense as well as activities of the Ministry of Foreign Affairs and of Russian government propaganda and information warfare.

### Arms Exports Boost Russia's Power

Russia is also a major world weapons exporter. The Kremlin aims to forge long-lasting military relations and strategic partnerships with foreign countries through the export of arms. Russia's military exports extend to Europe, the Middle East, Central Asia, South Asia (primarily India), the Far East (mainly China), Southeast Asia, Africa, and Latin America. To further centralize government control over the production of the military-industrial complex, the Kremlin has created an industrial behemoth, Rostekhnologii (Russian Technologies),

which agglomerates 426 state enterprises. These include the defense export enterprise Rosoboronexport, the aircraft manufacturing, non-ferrous metals, and shipbuilding conglomerates to name just a few. Russia's titanium exports corporation, VSMPO-Avisma, vital for Airbus and Boeing, is now controlled by Rostekhnologii, which is planning to develop it into one of the largest non-ferrous-metals companies in the world.<sup>57</sup> Rostekhnologii will centralize the planning and production of the various enterprises under its umbrella. It could also attempt to marshal together its various resources and coordinate its efforts to become a formidable competitor in the international market for arms, metals, and aerospace technology.

### What the Obama Administration Should Do

If Russia were a friendly Euro-Atlantic power, the United States would be no more concerned about its economic activity than about that of France. Russia's use of state-dominated businesses to enhance its geopolitical posture and gain dominance over U.S. allies' energy supply, however, should raise deep concerns in the Obama Administration and in European capitals. Free-market competition is and should remain a fundamental principle of U.S. trade policy; but America and its allies have a duty to their citizens to monitor, and, where necessary, prevent, any country's anti-market, political, covert, or illicit efforts to undermine our markets or our security, which Russia increasingly is aiming to do.

For example, Russian's growing control of European energy resources and exports to Europe through non-market means is both strategically and

56. Russian News and Information Agency Novosti, "Russian Military Spending to Hit \$50 Bln in 2009," October 16, 2008, at <http://en.rian.ru/russia/20081016/117784473.html> (December 31, 2008); Russian News and Information Agency Novosti, "Russian Air Force to Start Receiving Ka-52 Helicopters in 2009," October 9, 2008, at <http://en.rian.ru/russia/20081009/117616797.html> (December 31, 2008); Russian News and Information Agency Novosti, "Russian Navy to Get 8 New-Generation Submarines by 2015," October 2, 2008, at <http://en.rian.ru/russia/20081002/117393965.html> (December 31, 2008); "Russian Navy Promises New Nuclear Subs with New Strategic Missiles," *Bellona*, October 6, 2008, at [http://www.bellona.org/news/news\\_2008/new\\_nuke\\_subs](http://www.bellona.org/news/news_2008/new_nuke_subs) (December 31, 2008); "Only 1 Million in Russian Army by 2012," *Kommersant*, October 8, 2008, at [http://www.kommersant.com/p-13366/r\\_500/Russian\\_Army\\_reform/](http://www.kommersant.com/p-13366/r_500/Russian_Army_reform/) (January 13, 2009). See also "Rapid Reaction Force to be Formed in Russian Army," October 1, 2008; Russian News and Information Agency Novosti, "Russia Plans to Raise Defense Expenditures by 50% in 3 Years," September 30, 2008, at <http://en.rian.ru/russia/20080930/117331145.html> (December 31, 2008).
57. Reuben F. Johnson, "Russia Merges Enterprises into Industry Giant," *Jane's Defence Weekly*, August 6, 2008, p. 20; Elena Kiseleva and Maria Cherkasova, "Rostekhnologia Head Seeks Mining Might," *Kommersant*, April 28, 2008, at [http://www.kommersant.com/p887518/r\\_1/metallurgy\\_mergers\\_and\\_acquisitions](http://www.kommersant.com/p887518/r_1/metallurgy_mergers_and_acquisitions) (December 31, 2008).

economically burdensome, as well as dangerous. To better ensure that the U.S. and its allies have access to the energy that fuels their economies and their militaries, to prevent Russian domination in strategic sectors, and to counter corrupt and criminal activities of Russian corporations and tycoons, the Obama Administration should take early action to:

- **Ensure** that CFIUS has the resources and support it needs to conduct its investigations according to the law. The U.S. should urge its allies to develop similar institutions and processes to perform their own national security evaluations and screenings.
- **Increase** cooperation among U.S. and allied intelligence services, law enforcement agencies, and independent experts to track Russian state and oligarch money laundering activities, corruption, and unfair competition practices. The Obama Administration should make the collection of actionable intelligence on questionable Russian activities by U.S. and allied law enforcement agencies a priority. Such intelligence is critical in gathering evidence necessary for achieving convictions in courts of law. Such intelligence includes, for instance, Russian banks providing credit card support for child pornography Web sites. The U.S. should exercise leadership in expanding international cooperation among law enforcement agencies to prevent and stop complex trans-border crimes, such as money laundering, and those that involve current or former Russian government officials; oligarchs with close ties to Russia's political leaders; intelligence operatives; and persons with ties to organized crime. When U.S. laws—such as the Patriot Act (especially Section 312, proceeds of foreign corruption), the Foreign Investment and National Security Act of 2007 (FINSA), the Defense Production Act of 1950 (DPA), money laundering laws, the Foreign Corrupt Practices Act, G-8 anticorruption initiatives, and similar laws in allied jurisdictions—are violated by Russian entities, the U.S. and its allies should not hesitate to vigorously prosecute the offenders and confiscate, through appropriate court proceedings, illegally laundered funds and properties acquired with ille-

gally procured funds, and aggressively deny visas to those government and business figures involved in the illicit activities.

- **Encourage** U.S. and other multinational companies to compete in economically viable energy and infrastructure projects overseas through free-trade, diplomatic and security support, and regulatory and tax policies that will enhance free competition without government-directed investment decisions. U.S. companies should be encouraged to compete for the Libyan and Trans-Saharan gas pipelines, Turkmenistan's gas fields, and other geopolitically significant ventures, which Russia is targeting in India, Southeast Asia, Africa, and Latin America.
- **Promote** market-viable alternative energy sources and unconventional sources of fuels worldwide to counter strategic dependency on Russian, Iranian, and Venezuelan oil. This should be accomplished through deregulation and trade and tax policies that encourage innovation and investment to develop, and through commercializing new sources of energy that best meet the needs of individual regions and nations. Western economies will be better off by expanding the supply of transportation fuels and reducing their Russian energy imports, thus reducing the influx of revenue into Kremlin coffers.
- **Expand** security cooperation with Russia's energy-exporting neighbors and other countries that Russia is targeting for energy cooperation, including train-and-equip programs for military and security forces protecting pipelines, and officer corps education in U.S. military colleges. The U.S. should make use of NATO's Partnership for Peace program.

### Conclusion: The Way Forward

Russia is being run as a corporation by the former senior members of the Russian intelligence community who strive to maximize profits and power, expanding global corporations for exports of raw materials and weapons. America's European allies and the newly independent states of Eurasia have already been subjected to Russia's heavy-handed policies and corrupt practices aimed at increasing their energy dependency, as well as a

flurry of efforts to acquire critical infrastructure such as ports, pipelines, refineries, and energy distribution networks.

The Kremlin has made clear that it intends to diminish America's standing as a world leader by promoting a "multipolar" world, and using its military, economic, and "soft" power to re-establish Russia as America's near-peer competitor. The lower energy profits accruing to Moscow from the current global economic downturn can play a role in mitigating Russia's anti-*status quo* foreign policy, and slow down the growth and modernization of its armed forces. But the U.S. should not rely on these

developments. The U.S. should develop comprehensive policies to handle Russia's economic power projection that is aimed at undermining American allies, power, and security interests, employing a mix of commercial, national security, intelligence, and diplomatic means.

—Ariel Cohen, Ph.D., is Senior Research Fellow in Russian and Eurasian Studies and International Energy Security and Lajos F. Szaszdi, Ph.D., was a Consultant in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation.