

Russia's energy drive leaves US reeling

By [M. K. Bhadrakumar](#)

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Last week, the gloves finally came off the Dmitry Medvedev presidency in Russia. It had to happen sooner or later, but few would have expected this soon. It was crystal clear US President George W Bush administered a diplomatic snub to Medvedev on the sidelines of the Group of Eight (G-8) summit meeting at Hokkaido, Japan.

Bush characterized him patronizingly as a “sharp guy” soon after they met in Hokkaido on July 9, but that was after making sure Secretary of State Condoleezza Rice proceeded to Prague and signed a deal just the previous day to install a US radar system as part of its missile defense system in Central Europe.

If Medvedev's core mission in Hokkaido was to underscore Russia's growing role in the world arena as a power with which the West has to contend, Bush acted as if he couldn't care. The US was also plainly dismissive of Medvedev's proposal at the G-8 for a pan-European security system that would include Russia. Medvedev expressed his “dismay” on hearing about the Prague deal. As if to rub in the snub, Rice proceeded from Prague to Bulgaria, where the US has for the first time established a military base, and then on to Georgia to discuss its plans of joining the North Atlantic Treaty Organization (NATO).

While in Tbilisi, she called for international mediation to stop violence spilling over in Georgia's breakaway regions of South Ossetia and Abkhazia, which have been sources of rising tensions, with Georgia accusing Russia of trying to annex the regions. To carry matters further, the US began a joint military exercise with Georgia codenamed Immediate Response 2008, near Tbilisi, which will continue through the month of July.

The exercise, financed by the Pentagon and planned by the US Armed Forces Eastern Command, is intended as a warning to Russia that Georgia is America's project and Washington wouldn't hesitate to do some heavy lifting to safeguard the “Rose Revolution”.

On the face of it, such hubris is illogical and unnecessary since the West should have every reason not to embarrass Medvedev. The West has been propagating in recent months that the youthful Russian president is a potential independent decision-maker in the Kremlin with whom it could do business - unlike his predecessor, Vladimir Putin.

Reflecting US thinking, Carnegie Moscow Center scholar Dmitri Trenin wrote recently that the West noted “Medvedev's quick-wittedness, his calm style of conducting talks, and his clear desire to show that he is the one who is the real master of Russian diplomacy ... There are much greater grounds for expecting that Dmitry Medvedev ... will slowly but steadily concentrate powers in his own hands.”

Clearly, what has been going on for the past few months on the East-West stage is one of

those pantomimes that the West and Russia are equally adept at playing. But the US seems to have concluded that all the Western flattery about him hasn't really gone to Medvedev's head and he has merely been demonstrating his own skill in dramatics. Actually, nothing much has changed in Russia. The polls show Putin, now premier, is still seen by Russians as their "supreme leader", with a popularity rating coasting above 70% - with Medvedev stuck at 47% - and the truth might be somewhere near what a Moscow commentator recently sized up, namely, that Medvedev is a co-pilot in the cockpit in which Putin remains the captain.

Besides, Medvedev would know that even if he wished to be the European modernizer and G-8 club member that the West wanted him to be, he would find himself hopelessly at odds with his country. According to a poll last week by a Russian television network, the symbol of renewal of present-day Russia turns out to be none other than Josef Stalin. By a substantial margin, Stalin left behind two colorful Vladimirs - the singer Vladimir Vysotsky and the revolutionary Vladimir Lenin - and a host of other perennial Russian heroes like Ivan the Terrible and Alexander Pushkin.

Indeed, when Medvedev signed last Saturday a new foreign policy strategy for Russia, it came to light that for the first time the prime minister has been put in the driving seat to implement foreign policy measures - hitherto a presidential prerogative - which also shows that the Kremlin will pursue the line set by Putin in his eight-year presidency. The vague and somewhat incomprehensible expectations that there might be of some kind of "liberalization" in Medvedev's foreign policy have proved to be unfounded.

But Moscow hasn't taken lightly the US snub. In an address to Russian envoys in Moscow on Tuesday, Medvedev unambiguously stated his intention to continue Putin's foreign policy course, criticizing the US moves on missile defense deployment, the West's failure to ratify the revised Treaty on Conventional Armed Forces in Europe, Kosovo's independence, etc. He said, "We strongly affirm that the deployment of elements of the global missile defense in Eastern Europe only exacerbates the situation ... we will be forced to respond to it in kind ...

"This is linked to Russian-American agreements on strategic stability. Obviously, this common heritage will not be able to survive if one party is permitted to selectively destroy individual elements of this strategic regime. We cannot agree to that."

According to the noted German expert on Russia, Alexander Rahr, last week's Russian veto on the United Nations Security Council draft resolution on Zimbabwe was also a response to the US move on missile defense. "China's opposition is easy to understand as it has many economic interests in Zimbabwe. Russia has none. Russia's veto is a response to the missile shield, to Abkhazia and to many other things ... Russia is trying to show that America cannot decide everything," Rahr said.

The Russian veto generated a new American theme song that Medvedev isn't calling the shots in the Kremlin and might have got slapped down on Zimbabwe. But Moscow brushed aside the suggestion. The Foreign Ministry issued a statement calling the draft resolution on Zimbabwe "a dangerous precedent ... illegitimate and dangerous, leading towards unbalancing the whole UN system". The statement rebuked Washington and London, saying, "Russia took into account the fact that the situation in Zimbabwe does not pose a threat to regional, let alone international peace and security and does not warrant adoption of sanctions against that country."

Again, on Monday, Moscow announced that for the first time since the breakup of the Soviet Union in 1991, Russian warships were resuming patrol of the Arctic waters. In effect, Medvedev signaled he was maintaining the course of expanded military patrols begun by Putin. Why such a sudden quickening of the tempo in US-Russian relations? The answer might be found on an entirely different plane – energy security.

What emerges is that if anything, Medvedev is pursuing Russia's energy diplomacy more robustly than Putin. Soon after taking over in the Kremlin in May, Medvedev ordered the expeditious completion of the first stage of the Eastern Siberia Pacific Oil Pipeline (ESPO) by end-2009. The ESPO has a vital role in Moscow's efforts to balance its oil export strategy between Europe and Asia-Pacific. Moscow hopes to target Asia-Pacific as the export destination for one-third of its oil exports by 2020, as compared to 3% currently.

In early July, Medvedev undertook a diplomatic tour of the Caspian region, covering Azerbaijan, Turkmenistan and Kazakhstan. In Azerbaijan's capital Baku, he made a stunning offer that Russia was prepared to buy Azerbaijan's entire gas output at market prices. In Ashgabat, he shored up Turkmenistan's commitment to the modernization of the Central Asia-Center Pipeline and the construction of a new littoral Caspian pipeline.

Medvedev succeeded in prevailing over competing European and US rivals in the struggle for Turkmen gas. He further ensured that oil and gas from Turkmenistan and Kazakhstan will not bypass Russia. But what has truly incensed the Bush administration are Gazprom's dramatic inroads into Africa.

Russian giant Gazprom, the largest extractor of natural gas in the world, has announced plans to build a pipeline across the Mediterranean to pump Libyan gas to Europe. This is the final lap of a Kremlin strategy that involves Gazprom handling the entire output of Libya's gas, oil and liquefied natural gas (LNG) designated for export to Europe and the US.

Look at Gazprom's terse announcement in Moscow on July 9, "The Libyan side positively evaluated Gazprom's proposal to buy all future volumes of gas, oil and liquefied natural gas assigned for export at competitive prices." Now, Washington gingerly allowed the re-entry into the "international community" by Muammar Gaddafi, Brotherly Leader and Guide of the Revolution in Libya, on the basis of clear understanding. Western statesmen from British Prime Minister Gordon Brown to French President Nicolas Sarkozy and former Italian premier Romano Prodi queued up to climb the window of business opportunity opened by the Bush administration. And then Putin visits Tripoli in April, less than a month before he left office, and the two erstwhile colonels decided to jointly handle all of Libya's energy resources.

And Gazprom seeks to buy exploration licenses in Nigeria and proposes to build a pipeline from there to Algeria, and with Algeria, Gazprom is developing a proposal on "joint" marketing of gas in Europe. US officials have gone ballistic. "The monopolistic Gazprom is behaving like a monopolist does. It tries to gain control of the market as much as possible and to stifle competition. And that's clearly what is going on," thundered Matthew Bryza, US deputy assistant secretary of state for Eurasian affairs. "The Kremlin wants Gazprom to be a dominant force in global energy, and the dominant force in global gas. Tying up gas resources in Central Asia and Africa is part of that," he added. The plan is for Gazprom to dominate "in every corner of the planet", he alleged.

Bryza's outburst is understandable. The good work he did lies now in ruins. Washington was relieved to see the back of Putin's presidency, but it now transpires that Gazprom may have

only stepped up the pace of overtures under Medvedev's astute guidance. Besides, with its new assets in Africa, Gazprom will soon be knocking for access to the US market through supplies of LNG. The European and international companies which have been traditionally present in the African market will be compelled to play a role alongside Gazprom.

Washington hit back by ensuring that Russian companies are left out in the cold from the 30 contracts for lucrative oil deals that Baghdad is awarding. It is a big blow for Russia. In February, Moscow had written off US\$12 billion or 93% of Iraq's debt to Russia in a move that was widely seen as aimed to help Russian oil company LUKoil regain the Saddam Hussein-era rights to develop Iraq's giant West Qurna-2 oil field. But under US pressure, the Iraqi government is now awarding West Qurna-2 to the US's Chevron.

The Kremlin didn't show any anger, but coincidence or not, Gazprom chief executive Alexei Miller suddenly arrived in Tehran on Monday and discussed with Iranian President Mahmud Ahmadinejad the setting up of an organization of gas-producing countries. No doubt, with the Russian foothold in Libya (which has estimated natural gas reserves of 1.47 trillion cubic meters), in coordination with Algeria (which currently supplies over 10% of Europe's gas supplies), Qatar (with proven natural gas reserves of 25.8 trillion cubic meters) and Iran (which has the world's second-largest reserves after Russia), the time for a "Gas OPEC" is approaching.

The Iranian leader also suggested to Miller a market-sharing arrangement so that Russia and Iran could "collectively meet the demands of Europe, India and China in the gas sector". During the visit, an agreement was signed on the development of Iran's oil and gas fields by Russian companies; on Russian participation in the transfer of Iran's Caspian Sea crude oil to the Oman Sea; cooperation in the development of Iran's fabulous North Azadegan oil field; and, possible participation of Gazprom in the planned Iran-Pakistan-India gas pipeline project. Evidently, Moscow took a deliberate decision to press ahead with Iran in energy cooperation in the full glare of world publicity in complete disregard of US displeasure. Tehran loved it.

To quote a US expert, "Russia's strategic interest in Iran implicitly underscores the futility of hopes that Moscow would cooperate with Washington in imposing meaningful sanctions on Iran. While Western European companies are moving out of Iran or suspending agreements for fear of US sanctions (which penalize investments of more than \$20 million a year in Iran's oil and gas sector), Gazprom is enlarging the already existing foothold."

Conceivably, the danger of losing out on the last energy frontier to Russia (and China) could be a factor in Washington's policy shift on Iran talks. Washington calls the u-turn "a strong signal to the Iranian government that the United States is committed to diplomacy". But according to The New York Times, Rice has decided to "test Iran's willingness to consider an international package of incentives meant to coax Iran into making concessions on its nuclear program". What we do not know is how close the Bush administration may be for involvement in Iran's energy sector, which is an element in the so-called "international package of incentives". (Halliburton, which Vice President Dick Cheney headed, was a very active player in Iran.)

By now it must be obvious to the Bush administration that the youthful-looking, post-communist lawyer-president who took over from Putin has lost no time drilling a hole through the entire US strategy to weaken Gazprom's grip over the supply of gas to Europe. The sense of fury is imaginable. But then Washington has only itself to blame. Medvedev's

career as an energy czar is an open book like Cheney's - or Rice's. From 2000, he headed Gazprom. Now he controls Gazprom from the Kremlin.

Few took note that when he formally bid farewell to the Gazprom board of directors at a ceremony in Moscow on May 27, Medvedev took immense personal pride in pointing out that during his eight-year stewardship, Gazprom's capitalization skyrocketed by a factor of 46, and one fifth of Russia's budget is today derived from Gazprom's activities. He concluded, "I want to say in my turn that we will have the chance to see each other and discuss things in working meetings. So, nothing is coming to an end. It's only the beginning."

In sum, the past week's flow of events in places as far apart as Prague, Hokkaido, Tbilisi, Harare, Tehran and the Arctic underscored that after a brief respite, the rivalries over energy security have revived with a ferocity that can rock the equilibrium of overall US-Russia relations. The situation will likely be exacerbated in the coming period. The geopolitics of energy security are a highly sensitive subject for the Bush administration, whose profound links with Big Oil are legion. It is a tremendous loss of face for the Bush-Cheney-Rice combine that Moscow is outwitting the US on the energy front.

The strong possibility is that the Bush administration will press the pedal on multiple fronts on the Eurasian geopolitical landscape and create a fait accompli of US-Russian mutual antagonism for Senator Barack Obama, should he become president. The haste behind the Prague deal on missile defense smacks of such thinking. Almost certainly, Rice will press for a decision on the plan of action in respect of Georgia's and Ukraine's membership of NATO at the meeting of the alliance's foreign ministers in December. The question, "Who is the boss in Russia?" doesn't really seem to matter anymore.

*Ambassador **M K Bhadrakumar** was a career diplomat in the Indian Foreign Service. His assignments included the Soviet Union, South Korea, Sri Lanka, Germany, Afghanistan, Pakistan, Uzbekistan, Kuwait and Turkey.*

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