Introduction

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Searching for a way to characterize Vladimir Putin's eight years as Russia's president, it is hard to improve on "Russia is back!" Certainly, his rapid-fire criticisms of the West and the United States—combined with the new self-confident and assertive claims of Russia's economic, military, and political prowess (Russia now claims it owns the North Pole)—is something we seldom heard after the collapse of the Soviet Union. After all, less than a decade ago, as a result of Russia's August 1998 financial meltdown, the country was effectively bankrupt. It was not a good time to take on the job of Russian prime minister, as Putin did a year later in August 1999, or of acting president as he did, four months after that, on January 1, 2000.

Putin certainly deserves credit for facilitating Russia's recovery and guiding Russia to new heights of economic and political success. But without diminishing Putin's contributions, a fair appraisal necessitates recognition that more than anything else, it is the increase in oil prices from as low as $10 a barrel in 1998 to more than $70 a barrel in 2007 that explains Russia's resurgence—not Putin's magic wand. High oil prices have brought Russia a financial windfall that has allowed it to repay its debts and build up what is now the world's third-largest holding of foreign currency and gold. Enough of this new wealth has also trickled down to the population at large so that, unlike 1998 when over one-third of the population was below the poverty line, today fewer than 17 percent are. At the same time, of course, the powerful have held on to enough for themselves so that the number of billionaires (in U.S. dollars) in Moscow exceeds the number in New York City. While not yet at the billionaire stage, some of Putin's new appointees, particularly those who have been made chairmen and CEOs of state-controlled energy companies, are well along the road to multimillionaire status.

This special edition of *Demokratizatsiya* focuses on that energy sector, how it has developed, and some of the problems encountered along the way. We have assembled an unusual collective to do this. Unlike usual collections, which are traditionally made up exclusively of articles prepared by academics, we have leavened the core of usual suspects with some nonacademic voices. This includes Richard Matzke, who was formerly the president of Chevron Overseas Petroleum Inc. at a time when Chevron acquired the Tengiz supergiant oil field in Kazakhstan. He retired as vice chairman of the Board of Directors of Chevron-Texaco and in retirement became an outside member of the Board of Directors of LUKoil, Russia's second-largest oil company. By contrast, Michael Cohen is an economist at the U.S. Department of Energy. The other authors are affiliated with universities.

Most of the emphasis is on Gazprom. While Gazprom generates less in the way of overall export revenue than do the various petroleum-producing companies, both private and state owned, it brings Russia more political influence than the petroleum companies. Moreover, as Robert Price, who has worked with me at Harvard University, points out in considerable detail, Gazprom is perhaps the model of a "national champion," something Putin envisioned before he became prime minister. But as prestigious as it might be to be classified as a "national champion," it is not all glamour. Although it may be exciting for Gazprom to serve as the point man while Russia pressures for a price increase or political concessions in such places as Ukraine, Georgia, Belarus, or even Italy, within Russia, Gazprom must subsidize the gas that it delivers to domestic consumers, both commercial and household. This, in turn, adversely affects the profit sheet. Gazprom must walk a narrow line between the state's and its own business interests. Failure to pay enough attention to the latter will make it difficult to generate the investment funds it needs to fulfill its contractual commitments and perform as a national champion.

Whether Gazprom will be able to invest enough is also one of Leslie Dienes's concerns. As a Kansas University geographer, he also examines how Russia's geography has affected the development of Russia's natural gas industry. The vast distances, the extreme climate, and the fact that the population is primarily in the west while the deposits are in the north makes natural gas production in Russia expensive. He also discusses the prospects for Novatek, another, albeit considerably smaller, producer of natural gas. It is less constrained by the state's policies, but it must work through Gazprom to gain access to Russia's natural gas pipelines. Russia's petroleum industry has a similar problem. Because the various companies also have trouble gaining access to the gas pipeline, they are traditionally forced to flare the associated gas they bring up while producing their petroleum. Dienes also analyzes the interrelationship between UES, the major producer of electricity in Russia, and Gazprom, both of which are essentially monopolies.

Michael Cohen also writes about Gazprom. While he examines whether enough has been invested to produce the natural gas that is needed, he also takes a closer look at how productivity at Gazprom, a state-owned company, compares to productivity at a privately owned gas company. Cohen, as well as Price and Dienes, criticizes Gazprom for its proclivity to invest in nonenergy-related and nonnatural gas–oriented projects. Cohen points out, for example, that fewer than 20 percent of Gazprom's investment goes to the development of new reserves. Of course, some of that non-gas development investment is a consequence of becoming a national champion. Profitmaking is not the only goal for national champions. But such distractions no doubt contribute to the fact that, according to International Energy Agency estimates, as much as 70 billion cubic meters of gas equivalent, equal to about one-third of Russia's annual gas exports, are wasted each year. Within Russia, with the proper investment, the flaring of natural gas could be reduced by as much as 20 percent.

Turning to petroleum, Matzke traces how both the United States and Russia evolved as producers and consumers of petroleum over the past century. The two dominated production and the export markets in 1900 as producers, yet by 2000, only Russia remained a major exporter. By contrast, the United States has become the world's largest importer. He also examines how the so-called Seven Sisters big oil companies have interacted with OPEC and, in turn, how both have interacted with Russia. This necessitates a look at what happened after the collapse of the Soviet Union and how the Ministry of the Petroleum

Industry has been transformed into an ever-evolving cast of private and state petroleum producers who, just as at a barn dance, constantly keep changing partners.

Theresa Sabonis-Helf from the National War College in Washington brings electricity into the picture. She also examines UES under Anatoly Chubais and how he has managed to restore not only Russia's electricity grid but also revitalize most of the electricity producers in the former Soviet republics. Beginning in 2003, all the former republics were able to operate as part of an integrated grid for the first time, something that had been an unfulfilled dream even in Soviet days. While this brings significant advantages to all those on the grid, it also has a downside. Efficiency has been enhanced, but at the same time, because the various members are woven into this grid, it also puts their independence at risk should they want to challenge UES, or Russia for that matter. Yet Sabonis-Helf notes that to the extent UES has been successful in creating a profitable electricity network, it has enabled companies and countries within the system to pay off their past overdue energy bills, which in turn frees them from threats of a takeover by their provider, UES. How successful UES has been can be judged by the fact that the most inefficient electric systems among the countries that formerly made up the Soviet Union are in Azerbaijan, Turkmenistan, and Uzbekistan, the countries whose electricity systems have remained outside the UES grid.

Finally, George Quester, a political scientist at the University of Maryland, examines the relationship between energy dependence and political power. As he sees it, the energy consumer is not necessarily always at the mercy of its energy supplier. Just as often, the energy consumer can counter pressure and even intimidation by the supplier. He shows that who has leverage over whom is not a simple matter.

The different vantage points reflected in this collection, while they do not always coincide, nonetheless provide the reader with a sense of how important Russia's energy resources have become in this era of high energy prices and fear of energy shortages. Russia's oil and gas have helped it regain superpower (with the emphasis on "power") status, a new and unprecedented prosperity, and political clout. How well Russia and its energy producers manage their endowment and this opportunity will determine how long they will be able to enjoy this new status and how effective they will be. Based on the analyses that follow, there is much here that should please Russian leaders, including those who will come after Putin, although not all the signs are positive.