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How Hydrocarbon Resources and Vladimir Putin's Acquaintances are Linked to Russia's Foreign  
Policy Decisions

By

Anttoni Asikainen

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Submitted in partial fulfillment  
of the requirements for  
Honors in the Department of Russian and East European Studies

UNION COLLEGE

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## ABSTRACT

ASIKAINEN, ANTTONI                      How Hydrocarbon Resources and Vladimir Putin's Acquaintances are Linked to Russia's Foreign Policy Decisions. Departments of Political Science and Russian and East European Studies, June 2020

ADVISOR: Kristin Bidoshi & David Siegel

This thesis examines how Russia uses its hydrocarbon resources as a foreign policy tool. As one of the most significant gas and oil producers in the world, Russia has gained enormous political power in many nations. In short, for many years, Russia has been building asymmetrical economic relationships with multiple countries, including countries in the European Union. Many of these countries have become partially or entirely dependent on Russian energy. It is true that financially, Russia profits enormously from hydrocarbon exports, but scholars also agree that for Russia, gaining political power by selling hydrocarbon resources is just as important. Another way of gaining political influence in a foreign country is to offer subsidies on energy exports. This tactic has been used primarily in former Soviet countries, mainly because their economies are rather weak.

We also know that corruption, informal politics, and Vladimir Putin's network of close acquaintances are deeply rooted in the contemporary Russian business culture. For example, Russian state-owned energy companies such as *Gazprom*, *Rosneft*, and *Transneft* all have Putin's close allies as board members. In other words, the Kremlin is able to directly control virtually all major Russian hydrocarbon exporters. Thus, we can ask "who really benefits from Russia's natural resources - the Russian nation or a selected group of influential businessmen close to the Kremlin?" In order to answer this question, Russia's role in Crimea and Africa will be analyzed. This thesis argues that no matter what business Russia does, including exporting

cheap gas and oil in return for political influence, building gigantic infrastructural projects in Crimea, or selling arms in Africa, Putin's close allies always get their 'fair' share of the pie. Hence, it can be concluded that the Kremlin transfers state-owned wealth to the rich oligarchs, but Russian citizens also gain something from these transactions: geopolitical security abroad, which oftentimes translates to domestic security.

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## Introduction

This thesis analyzes Russia's use of its energy resources and argues that Russia uses its hydrocarbon exports as a foreign policy tool. More specifically, there are four main ways of how Russia uses its natural energy resources to acquire political power abroad. First, Russia offers subsidized gas and oil to various countries. Second, Russia pressures its business partners to sign long-term contracts in order to make them dependent on Russian gas and oil. These two points are directly interconnected: Russia lays an 'energy trap' by offering cheap energy, and when countries fall into this trap, they are forced to sign lengthy agreements. Third, under President Vladimir Putin's rule, the Kremlin has forced gigantic energy companies such as *Gazprom* and *Rosneft* in the hands of the state. In essence, the Russian state has turned major energy companies into glorified weapons for achieving Moscow's foreign policy goals. Lastly, in the last twenty years, Russia has dedicated sizeable amounts of government funds to building new pipelines to bypass problematic countries.

What is more, this thesis seeks to examine how President Vladimir Putin has successfully surrounded the Kremlin with a network of prominent Russian businessmen. These same business figures directly profit from many decisions made in Moscow. As Henry Hale has argued, in Russia's political environment personal connections are vital for accomplishing anything. It is also said that Russia is a world of "patrons and clients, patronage politics, and the dominance of informal understandings over formal rules."<sup>1</sup> Hence, it must not come as a

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<sup>1</sup> Hale, Henry E. "Russian patronal politics beyond Putin," 30.

surprise that President Vladimir Putin is often regarded as a “master practitioner of patronal politics.”<sup>2</sup> For example, in 2000, when Putin became the President of Russia, he brought his network of close acquaintances from St. Petersburg’s Mayor’s Office and KGB to the Kremlin. Putin has successfully continued building his network, and today, 20 years after Putin took office for the first time, it can be argued that Putin and his network of allies have infiltrated every prominent position in the Russian government as well as the private sector.

This thesis is divided into three major chapters: *Literature Review*, *Russia-Africa*, and *Russia and the Crimean Peninsula*. The first chapter seeks to introduce the existing literature on the topics discussed above. In essence, many contemporary scholars agree that Russia is, to some extent, using its energy resources as a foreign policy tool. Moreover, it is clear that Russia has been building asymmetrical economic relationships with its trading partners in order to gain political power abroad. Put differently, many countries have become dependent on Russian energy, and thus Russia has been able to increase its political influence abroad. The first chapter will also hypothesize that countries can avoid the Russian ‘energy trap’ by establishing a complex economic relationship with Russia.

Finally, before moving to the next chapter, the first section will examine what *Sistema* is and how it affects Russian business culture. In short, *Sistema* has allowed Putin to transfer government-owned wealth to his closest allies. Thus, the goal of the subsequent chapters is to answer the question, “who benefits from what?” In other words, are the profits from the Russian energy sector going to Putin and his close associates, or does the Russian nation benefit as well?

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<sup>2</sup> Hale, Henry E. "Russian patronal politics beyond Putin," 31.

The *Russia-Africa* chapter argues that Russia is trying to rebuild its influence on the African continent. The chapter will demonstrate that economics is the primary motivation for Russia's interests in Africa. Many African countries are rich in many natural resources; oil, natural gas, cobalt, gold, and diamonds can be found relatively easily on the African continent. Russia has understood this untapped potential, and many Russian companies have started operating in the region. Interestingly, the owners of these Russian companies are Putin's close friends. Moreover, there is strong evidence that Russian private military contractors, *The Wagner Group*, for instance, are working in many African countries. The Central African Republic is perhaps the best example.

Other major Russian businesses in Africa are arms exports and the nuclear energy sector. Both of these industries are controlled by Putin's allies. For example, the CEO of *Rosoboronexport*, a major Russian arms exporter, belongs to Putin's network. What is more, Putin's allies are in charge of the nuclear energy companies operating in Africa. For instance, Sergey S. Ivanov is a major figure in the Russian nuclear energy sector. This chapter concludes that although Russia has gained some political influence in a few African countries, monetary interest (and enriching Putin's network) is still the main motivator for the Russian operations in the region.

The last analytical chapter of this thesis, *Russia and the Crimean Peninsula*, argues that scholars have neglected to examine the importance of economic reasons behind the annexation of the Crimean Peninsula. There are three key economic reasons why Russia was, and still is, interested in Crimea. First, there are vast amounts of natural resources, primarily oil and natural gas, within the Crimean Exclusive Economic Zone. Second, there is a strong



correlation between the annexation of the Crimean Peninsula and recent deals signed between Russia and China. In short, Russia has agreed to export almost 40 billion cubic meters of natural gas per annum to China. The agreement was signed for 30 years. In order to fulfill this contract, Russia needed to find new sources of natural gas. Lastly, this chapter demonstrates how giant infrastructural building projects in Crimea have become yet another way of transferring Russian state-owned assets to Putin's close associates.

Finally, the *Conclusion* chapter will argue that due to the nature of the political system in Russia, it is tough to give a definitive answer to the question "who benefits from what." Putin has indeed succeeded in disseminating his network of close associates into every aspect of Russian life. Thus, it can be said that Putin's allies benefit tremendously from Russia's natural riches. However, as I will hypothesize in the final chapter, this does not mean that the Russian public would not receive any benefit.

## Literature Review

The goal of this chapter is to examine the existing literature on how Russia uses its energy resources as a foreign policy tool. Most of the literature available today acknowledges that Russia has been rather successful in gaining political power across various countries. One of the biggest issues for these countries is that they have become dependent on Russian oil and gas. Dependency is always bad because it creates an asymmetrical economic relationship, where by one country has more power over the other. The scholars introduced in this chapter believe that Russia's main goal with hydrocarbon exports is to gain political influence abroad.

But the question of who benefits from these energy exports is never answered in the literature available today. Is there a national or private interest in the energy export industry? In short, this chapter seeks to convince the reader that hydrocarbon exports are a potent and functional tool for foreign policy. Nevertheless, it is still unclear who is the ultimate beneficiary of this tool - the state or private individuals.

I will address these unanswered questions in the subsequent pages. First, I will turn to explaining how asymmetrical economic relationships have become the foundation of Russian foreign policy. Moreover, I will argue that via subsidies, price-exploitation, long-term contracts, and state-owned energy companies, Russia is able to build these imbalanced relationships. Second, I will discuss the implications of the so-called 'pipeline-politics.' In essence, Russia has been trying to restore its might by building new pipelines across the Commonwealth of Independent States (CIS) region. Lastly, this chapter will argue that there is a very complex connection between state-owned energy giants and President Putin's allies, meaning that it is not always clear what entity claims the final monetary profit.

### Asymmetrical economic relationship as the cornerstone of Russian foreign policy

In essence, an asymmetric relationship "gives the less dependent partner in the relationship political leverage over the more dependent partner."<sup>3</sup> As stated in the introductory paragraph, dependency is always bad because it makes countries vulnerable to losing their autonomous political power to other nations (in this case, Russia). There are two main theoretical concepts

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<sup>3</sup> Krickovic, A., 2015. When interdependence produces conflict: EU-Russia energy relations as a security dilemma. *Contemporary security policy*, 6.

that make countries susceptible to losing political power via economic aggression. First, it is vital that the initiating ‘aggressor,’ in this case, Russia, has a bigger economy than the ‘target’ state.<sup>4</sup> Second, the trade percentage between an aggressor and the target state should not be balanced.<sup>5</sup> For example, 5.4 percent of Russian exports are shipped to Belarus, but 44 percent of all Belarus’ exports are sent to Russia.<sup>6</sup> Hence, according to the theories discussed above, Belarus would be an ideal target state.

Historically, scholars such as Adam Smith and Immanuel Kant have hypothesized that “states are deterred from initiating conflict against their economic partners for fear of losing the commercial gains produced by their economic relationship.”<sup>7</sup> However, Russia would be able to sustain economic conflicts with most of its trading partners because of the strong asymmetrical economic relationships. Hence, Smith's and Kant's theories cannot be applied in Russia's case. Therefore, one could argue that economic interdependence does not reduce conflicts between Russia and other nations.<sup>8</sup> As Krickovich states, in order for countries not to fall into the ‘Russian energy trap,’ they should develop a complex and symmetrical economic relationship with Russia.<sup>9</sup> The economic relationship between Russia and the European Union is a good example of this.<sup>10</sup> Thus, it could be argued that it is in Russia’s interest to build

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<sup>4</sup> Newnham, R., 2011. “Oil, carrots, and sticks: Russia's energy resources as a foreign policy tool,” 135.

<sup>5</sup> Newnham, R., 2011. “Oil, carrots, and sticks: Russia's energy resources as a foreign policy tool,” 135

<sup>6</sup> Source of data: the Observatory of Economic Complexity

<sup>7</sup> Krickovic, A., 2015. When interdependence produces conflict: EU-Russia energy relations as a security dilemma. *Contemporary security policy*, 4.

<sup>8</sup> Krickovic, A., 2015. When interdependence produces conflict: EU-Russia energy relations as a security dilemma. *Contemporary security policy*, 7.

<sup>9</sup> Krickovic, A., 2015. When interdependence produces conflict: EU-Russia energy relations as a security dilemma. *Contemporary security policy*, 7.

<sup>10</sup> The relationship between Russia and the EU is not only about gas and oil. Russia exports vast amounts of other products as well. Similarly, the countries in the EU export their products to Russia. Moreover, the finance sectors in both countries are deeply involved with each other.

asymmetrical interdependence relationships with as many countries as possible. There is no doubt that Moscow has gained extraordinary political power in countries such as Belarus and Georgia by building simple and asymmetric economic relationships with them. In other words, the majority of the trade between Russia and these countries is concentrated on oil and gas.<sup>11</sup>

## How does Russia build these imbalanced economic relationships?

### Subsidies & Price

The main way for Russia to gain political capital via trade is to offer subsidized gas and oil to various countries. Although selling subsidized goods seems to be against common commercial logic, it is practiced everywhere in the world. The basic idea is that companies suffer a short-term economic loss in order to achieve long-term economic gain. However, since companies such as *Gazprom* and *Rosneft* are state-owned businesses, in Russia's case the sought-after long-term gain is often political power because when energy suppliers gain a quasi-monopolist status in markets, it rather easily translates into political leverage.<sup>12</sup> Moreover, Russia's target states are usually not in a position to turn down these 'good deals' because their economies are not strong enough.<sup>13</sup> As Newnham argues, Russia often uses such 'petro-carrots' to gain political power. On the other hand, if countries do not agree to Russia's demands, it might use so-called 'petro-sticks' (halting energy deliveries or increasing prices, for example).<sup>14</sup>

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<sup>11</sup> Protestors have demanded that Russia-friendly officials should resign in Georgia. For more information, see "Georgian Protests: Tbilis's Two-Sided Conflict."

<sup>12</sup> Korteweg, R., 2018. Energy as a Tool of Foreign Policy of Authoritarian States, 4.

<sup>13</sup> Countries such as Georgia and Belarus would struggle tremendously if the gas and oil prices suddenly increased.

<sup>14</sup> Newnham, R., 2011. "Oil, carrots, and sticks: Russia's energy resources as a foreign policy tool."

In a broader context, these subsidies should be seen as a part of the so-called ‘tap weapon’ (sometimes referred to as the ‘price weapon’).<sup>15</sup> Simply put, a tap weapon means that Russia can cancel gas and oil exports at any time if a country does not agree to pay a certain price on the energy or if a country refuses to implement ‘friendly’ policies.<sup>16</sup> Despite the fact that gas and oil exports produce a lot of wealth for Russia, Russia is not afraid of using the tap weapon because the economic aspect is often trumped by political motives.<sup>17</sup> In fact, Kanet argues that “almost from the very inception of the new Russian Federation, Moscow has used its control of energy as a means to influence other former Soviet republics to change political positions that they had taken or to follow Moscow’s policy lead.”<sup>18</sup> In other words, Russia has been using the tap weapon to form asymmetrical economic relationships between itself and other countries from the early 1990s, and thus has gained political power in its near abroad.

#### Long-term Contracts

Stacy Closson has hypothesized that “Russia uses its energy supplies as part of an effort to expand political influence over Central and Eastern European (CEE) states.”<sup>19</sup> Essentially, according to this theory, Russia wants to change the energy reliance of CEE states to energy dependence by forcing them to sign long-term energy contracts with Russian hydrocarbon exporters. This can be directly linked to the long-term gains discussed earlier – Russia sells

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<sup>15</sup> Nygren, B., 2008. Putin's use of natural gas to reintegrate the CIS region. *Problems of Post-Communism*, 5.

<sup>16</sup> Nygren, B., 2008. Putin's use of natural gas to reintegrate the CIS region. *Problems of Post-Communism*, 5.

<sup>17</sup> Henderson, J., 2016. Does Russia Have a Potent Gas Weapon? 461-462.

<sup>18</sup> Kanet, R.E., 2008. The return of Imperial Russia: Russia and its neighbors, 9.

<sup>19</sup> Closson, S., 2014. Subsidies in Russia’s gas trade, 61.

cheap gas and oil to certain countries, locks them into long contracts, and as a result, gains political capital. Furthermore, since these contracts are often signed for multiple years, Russia is able to demand small changes over the years. For example, Russia could pressure countries to change certain figures in the administration, and after a few years, the administration could be full of pro-Russian policymakers.

### *Gazprom and Rosneft – Glorified weapons for achieving foreign policy goals*

Some scholars have argued that “a key ingredient in Russia’s ability to use its resource abundance as an instrument of foreign policy has been President Vladimir Putin’s successful strategy of consolidating Russian energy muscle in the hands of the state.”<sup>20</sup> For example, under President Putin’s rule, the state has turned companies such as *Gazprom* and *Rosneft* into state-owned enterprises. Even though these companies are magnificent cash cows for the state, their entire strategy is in fact driven by national interest rather than commercial logic.<sup>21</sup> *Gazprom* and *Rosneft* have become so powerful and important that some scholars even argue that these companies are the two main weapons the Kremlin is using to achieve its foreign policy goals.<sup>22</sup>

Since there are no globally standardized laws concerning natural gas exports, gas is an excellent tool for gaining political leverage. The Kremlin has converted *Gazprom* from a simple natural gas producing and exporting company to an effective and lethal political weapon.

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<sup>20</sup> Korteweg, R., 2018. Energy as a Tool of Foreign Policy of Authoritarian States, 13-14.

<sup>21</sup> Henderson, J., 2016. Does Russia Have a Potent Gas Weapon? 462.

<sup>22</sup> Rossbach, Niklas, 2018. The Geopolitics of Russian Energy, Gas oil and the energy security of tomorrow, 39.

Scholars often cite differential gas pricing between countries, the threat of gas interruptions, and halting of gas flows as examples of how *Gazprom*, the state-owned gas giant, is used to manipulate other countries' politics.<sup>23</sup> Furthermore, *Gazprom* owns most of the profitable gas reserves in Russia and controls virtually all gas pipelines.<sup>24</sup> *Gazprom's* tentacles reach international gas pipelines as well – *Gazprom* usually has a majority ownership in all pipelines it uses for transportation. As I will argue further in this chapter, the control of natural gas pipelines is vital for Russian influence. Hence, it could be argued that even before *Gazprom* sells any natural gas, the Russian government already possesses political power due to *Gazprom's* control of the pipelines.

### From asymmetric relationship to Great Russia – how Russia tries to rebuild its lost empire by pipeline politics

Arguably, Russia's biggest stumbling block in its aspirations to gain political leverage in various countries is its lost pipeline dominance. Russia has become dependent on transit countries to handle Russian gas and oil exports. Thus, some scholars hypothesize that Russia uses 'pipeline politics' to rebuild Moscow's lost empire.<sup>25</sup> In essence, this means that Russia is constantly building new pipelines by bypassing 'problematic' countries. Nord Stream pipelines are a good example of this strategy. Pipeline politics also explain why Russia has been so eager to gain political capital in the CIS region; Russia does not want to be dependent on anything or anyone.

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<sup>23</sup> Henderson, J., 2016. Does Russia Have a Potent Gas Weapon? 462-463.

<sup>24</sup> Roszbach, Niklas, 2018. The Geopolitics of Russian Energy, Gas oil and the energy security of tomorrow, 39-40.

<sup>25</sup> Nygren, B., 2008. Putin's use of natural gas to reintegrate the CIS region. Problems of Post-Communism, 3.

However, Nygren writes that Russia is not necessarily going directly after pure political control in the CIS region. Rather, it is slowly acquiring or re-acquiring the control of the energy and transit resources from the Soviet era. Subsequently, Russia is slowly gaining economic and political control of the region. Naturally, Russia is also seeking to achieve geopolitical security throughout the region.<sup>26</sup> In fact, Nygren argues that by using pipeline politics, Russia has been very successful in its aspirations to re-build 'Great Russia': "many of the former Soviet republics [have become] more or less economically, socially, and politically integrated with Russia."<sup>27</sup>

It should be mentioned that the CIS region has always been somewhat integrated into Russia (because of their shared history), but at least on paper, the CIS countries are sovereign states, which are able to make autonomous decisions. The fear of Western influence near its borders is one of the biggest reasons Russia is so interested in maintaining friendly and robust relationships with CIS countries. Nevertheless, there should be no doubt that Russia is, fairly successfully, using its natural energy resources as a foreign policy tool. Otherwise, Russia would have used more 'hard power' (like they did in the Crimea incident) in the CIS region.

#### The fight against NATO and the EU

It is a commonly accepted theory that energy-rich states usually use their energy resources solely for defensive purposes in order to ensure the continuation of the regime, to consolidate power at home, and prevent outside 'intrusion.'<sup>28</sup> However, Russia has been particularly

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<sup>26</sup> Nygren, B., 2008. Putin's use of natural gas to reintegrate the CIS region. *Problems of Post-Communism*, 5-6.

<sup>27</sup> Nygren, B., 2008. Putin's use of natural gas to reintegrate the CIS region. *Problems of Post-Communism*, 13.

<sup>28</sup> Korteweg, R., 2018. *Energy as a Tool of Foreign Policy of Authoritarian States.*, 4.



aggressive towards countries that have tried to escape Russia's sphere of influence by opening a dialogue with the North Atlantic Treaty Organization (NATO) or the European Union (EU). It would be foolish to think that incidents in Ukraine (gas dispute between Ukraine and Russia in 2006) and Georgia (energy crisis between Georgia and Russia in 2006) were merely a defensive action from the Russian government. As Korteweg observes, countries that are not part of the NATO or the EU, are more vulnerable to Russian energy blackmail. Using energy weapon for aggressive purposes has been Russia's standard method of warning countries what happens if they make decisions that are against Moscow's interests.

#### Increasing concerns about Russian hydrocarbon exports

For many nations Russian energy is a real problem. Countries have to make decisions between accepting cheap Russian energy and conceding some political power to Russia or paying very high prices for energy but maintaining their sovereign decision making. Unfortunately, many former Soviet countries, Belarus, for instance, have decided to sign long-term energy contracts for importing cheap Russian energy, and thus have lost some political sovereignty. It has to be mentioned that oftentimes the former Soviet countries are forced to sign these contracts because they would not be able to pay the higher prices for energy.

Ivanenko argues that the world should be increasingly concerned about the Kremlin's use of the energy weapon because "Russian leaders...have learned through hard experience that they need to respond to public demands for assertive foreign policy or risk losing

authority.”<sup>29</sup> Thus, one could argue that Russian leaders are ready to use Russia’s energy resources as a tool of foreign policy in order to stay in power. Ivenko writes that especially since 2003, the government has gained tremendous amounts of influence on what comes to the Russian energy sector, and thus the government is now capable of using companies such as *Gazprom* and *Rosneft* as tools in foreign policy.<sup>30</sup> However, it is quite interesting that “the Kremlin upholds national energy interests abroad but at the cost of high taxation at home.”<sup>31</sup> This would imply that foreign policy goals are extremely important for Russia, and that Russia is ready to sacrifice its domestic well-being in order to achieve its goals near abroad.

On the other hand, some argue that Russia is merely doing business, just like every other country with abundant natural gas and oil resources. Not so surprisingly, Western companies that are heavily invested in the Russian energy sector vigorously defend this theory.<sup>32</sup> Obviously, the Russian state apparatus also constantly claims that what they are doing makes good business sense. Furthermore, these same entities support Russia’s plans to build new sea pipelines into Europe. Europe’s energy security is not a concern for these companies because they argue that Europe is not dependent on Russia’s energy. While it is true that Europe is not completely dependent on Russia in this matter, Europe is in fact reliant on Russian hydrocarbon exports. I find this second theory to be rather flawed: if Europe is already reliant on Russian energy, would not buying more energy from Russia shift the balance towards dependence? Thus, I would argue that even if Russia is just conducting business, there still lies

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<sup>29</sup> Ivanenko, V., 2008. Russian energy policy and its domestic and foreign implications, 269.

<sup>30</sup> Ivanenko, V., 2008. Russian energy policy and its domestic and foreign implications, 267.

<sup>31</sup> Ivanenko, V., 2008. Russian energy policy and its domestic and foreign implications, 274.

<sup>32</sup> Closson, S., 2014. Subsidies in Russia’s gas trade, 62.

an inherent problem that Russia is gaining more and more political power in its sphere of influence (especially when we consider European Union). As I have shown, Russia's energy weapon is a real threat.

### Who benefits from what?

As stated previously, under President Putin's regime, Russia has been consolidating the energy weapon in the hands of the government. What is more, some scholars think that Putin's role in companies like *Gazprom* and *Rosneft* is more prominent than most people know. Henderson argues that Putin has "very significant influence over [*Gazprom*], not just by virtue of the state's 51% stake but also through the appointments of senior management – most of whom are old associates of government ministers."<sup>33</sup> For example, the CEO of *Gazprom* is Alexey Miller, who is Putin's old associate from the St. Petersburg's Mayor's office. Other members of *Gazprom*'s management committee also have close links to Putin or the government. Thus, it is quite clear that "there is a complex interaction between public and private actors in Russia's gas sector."<sup>34</sup>

It is worth mentioning that *Gazprom* is not the only state-owned energy company in which Putin's close associate is acting as the director. *Rosneft*'s CEO is Igor Sechin, one of the most trusted allies of Vladimir Putin. Sechin used to work as Putin's subordinate in St. Petersburg, and later Sechin held various high-ranking positions in Putin's Presidential Administration. What is more, *Transneft*'s (state-owned oil pipeline company) director is Nikolay Tokarev, who is a Russian oligarch and belongs to Putin's inner circle. It has been said

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<sup>33</sup> Henderson, J., 2016. Does Russia Have a Potent Gas Weapon? 462.

<sup>34</sup> Kivinen, M., 2012. Public and business actors in Russia's energy policy, 50.

that “Tokarev’s rise to prominence in Russia’s state-dominated energy sector can be traced back to his early career, when he became a close ally of Prime Minister Vladimir Putin during his KGB days.”<sup>35</sup>

There are numerous other companies in different business sectors where the directors have direct connections to Putin and his allies. It is quite evident that Putin has built a very complex system in which every major Russian state-owned company is managed by people from Putin’s inner circle. This system is often referred to as *Sistema*. For example, Kimberly Marten has argued that *Sistema* is Putin’s network of wealthy and powerful individuals who have consolidated immense amounts of power in the Kremlin.<sup>36</sup> Thus, a small group of businessmen are able to control the entire country. This obviously gives Putin immeasurable political and economic power within and outside of Russia. For example, Putin could single-handedly decide on increasing or decreasing oil and gas prices for certain countries.

Russia’s business sector operates and navigates between formal and informal rules. Complex patron-client relationships are not uncommon in the Russian business culture. In fact, Korteweg has argued that Russia has exported this idea outside its borders: countries are expected to behave like clients of Moscow, and nations, which have proved to be loyal clients, have received notable discounts on gas prices.<sup>37</sup> This begs the questions does Putin benefit from the Russian energy industry? Is it true that “*Gazprom...makes business directly with the*

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<sup>35</sup> Jessica Bachman, Reuters, “Transneft boss – from KGB to oil diplomat.”

<sup>36</sup> Marten, Kimberly. "Informal political networks and Putin’s foreign policy: The examples of Iran and Syria."

<sup>37</sup> Korteweg, R., 2018. Energy as a Tool of Foreign Policy of Authoritarian States, 5.

President of Russia?”<sup>38</sup> Does Putin’s network gain monetary benefit? Or is it just political? The existing literature on Russia’s energy weapon fails to answer these questions.

It is evident that Russia is using its hydrocarbon exports as a tool for foreign policy. It could also be argued that at every possible step, someone takes their ‘fair’ share of the ‘hydrocarbon pie.’ An important question is, who gets the biggest slice – Russia as a nation or Putin and his *Sistema*? In order to answer this, a deeper dive into Russian politics must be done. The following chapters discuss the significance of Russia’s presence in Africa and Crimea. For instance, Russian companies operating in African countries have direct links to Putin’s *Sistema*, and thus the Kremlin. Furthermore, it will be argued that the situation in the Crimean Peninsula is rather similar: firms tasked with building enormous infrastructural developments are owned by Putin’s associates.

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<sup>38</sup> Kivinen, M., 2012. Public and business actors in Russia's energy policy, 54.

## Russia – Africa

After the fall of the Soviet Union in the early 1990s, Russia's footprint in Africa declined considerably. For example, Russia "closed nine embassies, three consulates, and a variety of trade missions and student exchange programs."<sup>39</sup> Nevertheless, in the last 20 years, Russia has been trying to increase its presence on the African continent. Russia has been especially active since 2014. Although there are a number of reasons why Russia is suddenly more interested in Africa, in this chapter I will argue that economics are the main rationale for Russia's sudden attention to Africa. Nevertheless, as I will also hypothesize, it is possible that by gaining more influence on the African continent, Russia is trying to improve its situation on an international playing field.

### Economic reasons – from diamonds to Ak-47s

Between February and March of 2014, Russia seized the Crimean Peninsula. Subsequently, harsh economic sanctions were imposed on prominent Russian business figures, many of whom are President Vladimir Putin's close associates. Hence, it could be argued that after the events in 2014, Russia needed to start looking into new potential revenue streams. Nataliya Bugayova and Darina Regio argue that the "Kremlin views Africa as an avenue to boost its economy without reform by developing new revenue streams and undermining the sanctions imposed by

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<sup>39</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 155.

the West."<sup>40</sup> Kimberly Marten also hypothesizes that one reason for Russia's contemporary presence in Africa is that it is searching for new markets because of the 2014 sanctions.<sup>41</sup> In essence, Russia is trying to find resources it can extract from Africa, as well as find new markets for arms trade, for example.

One of the new potential income streams could be a variety of African natural resources. Adibe argues that "Russian companies are scaling up their activities in the mining of resources such as coltan, cobalt, gold, and diamonds."<sup>42</sup> For example, a Russian company named *Alrosa* has made vast investments into the diamond mining sector in Zimbabwe and Angola. Furthermore, *Nordgold*, a Russian owned gold mining company, has relatively new investments in Burkina Faso. Even the state-owned *Rostec* made an enormous deal to grow and develop a platinum mine in Zimbabwe.<sup>43 44</sup>

All of these companies have direct ties to the Kremlin and thus Putin. First, the CEO of *Alrosa*, Sergey S. Ivanov, is the son of Putin's close associate Sergei B. Ivanov, a former KGB agent, and deputy FSB director under Putin. He also acted as a defense minister during 2001-2007. Both men hold significant power in Russia through their connections and ownerships.<sup>45</sup> Second, *Nordgold* is owned by *Severstal*, which is controlled by Alexei Mordashov, who bought the company during the Russian privatization boom in the 1990s. Today, Mordashov is "increasingly close to President Putin, with whom he [even] had a televised meeting."<sup>46</sup> In fact,

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<sup>40</sup> Bugayova, Nataliya, and Darina Regio. "The Kremlin's Campaign in Africa: Assessment Update," 2.

<sup>41</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 155.

<sup>42</sup> Jidefor Adibe, "What Does Russia really want from Africa?"

<sup>43</sup> Rostec is a Russian state-owned 'military-industrial' empire

<sup>44</sup> Bugayova, Nataliya, and Darina Regio. "The Kremlin's Campaign in Africa: Assessment Update," 3.

<sup>45</sup> Rough Polished, "Sergey Ivanov elected as President of Alrosa."

<sup>46</sup> Julian Evans, The Sunday Times, "Dynamic tycoon is close associate of Putin."

Mordashov was placed on an international sanctions list because of his ties with Putin and other business elite in Russia. Lastly, it is only natural that *Rostec*, a Russian state-owned company, is under Moscow's direct supervision. The Director-General of *Rostec*, Sergey Chemezov, has been Putin's trusted ally for over 30 years. The two first met in Dresden in 1983 when they lived in the same apartment complex. Both worked for the KGB at the time.<sup>47</sup>

On the other front, *Gazprom* has signed deals regarding natural gas production projects in Algeria, and *Zarubeshneft* has shown interest in oil production projects in Angola and DRC.<sup>48</sup> What is more, in 2018 a Nigerian oil and gas company *Oranto Petroleum* announced that it “will be cooperating with Russia’s largest oil producer *Rosneft* to develop 21 oil assets across Africa.”<sup>49</sup> There is a number of other investments made by Russian companies in several African countries – and many of Putin’s associates, the notorious Yevgeny Prigozhin, for example, are behind these companies.

Prigozhin's path to becoming one of Putin's most trusted acquaintances is rather unique: "at the age of 18 he was sentenced for stealing and in 1981 he was also sentenced to twelve years imprisonment under articles of robbery, fraud, and involving teenagers in prostitution." In the end, Prigozhin spent nine years behind the bars. Following his release in 1990, he opened a fast-food business, which later evolved into a restaurant and a catering imperium. It is said that St. Petersburg’s political elite visited Prigozhin's restaurants frequently, and thus Prigozhin became friends with Putin. Once Putin became the President, Prigozhin’s

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<sup>47</sup> Putin’s List, “Chemezov Sergey.”

<sup>48</sup> *Zarubeshneft* is Russian oil company

<sup>49</sup> Tsvetana Paraskova, “Nigerian Firm To Partner With *Rosneft* To Develop 21 African Oil Assets.”



catering empire started receiving massive catering contracts for schools and the military. For example, in 2012, Prigozhin's "companies got over 90% of catering contracts in military units."

Thus, one could argue that in light of the facts above, Russia has both national and private interests involved in Africa. Putin's allies gain profits via their companies, and Russian government gains political influence wherever these companies operate because the owners and directors of these firms have very close ties with the Kremlin. Subsequently, political influence might lead to more economic cooperation.

The Russian International Affairs Council (RIAC), which is "one of Moscow's best-known and authoritative think tanks," has argued that in recent years the trade between Russia and Africa has increased vastly.<sup>50 51</sup> Moreover, RIAC seems to agree with other Russia-Africa reports regarding Russia's economic interest in the region: "major Russian companies actively invest in Africa...priority sectors for investment include energy and mining, as well as infrastructure, transport, manufacturing and agriculture."<sup>52</sup> It must be mentioned that RIAC is very biased in its publications – in the end, it was founded by Dmitry Medvedev to lead Russia's soft power campaigns across the world.<sup>53</sup> Nonetheless, as Figure 1 in Appendix shows, Russia's exports to Africa have been growing steadily. In fact, Russia doubled its exports in just seven years.

Russia's aspirations to grow its nuclear energy markets should also be put under economic reasons. Adibe has argued that the "lack of affordable, reliable electricity in Africa makes the region a prime and lucrative location for Russia's energy and power industry."<sup>54</sup>

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<sup>50</sup> Olga Kulkova, "What Russia Can Offer Africa"

<sup>51</sup> Alexander Gasyuk, "An upstart that plays up its ties to the establishment."

<sup>52</sup> Olga Kulkova, "What Russia Can Offer Africa."

<sup>53</sup> Alexander Gasyuk, "An upstart that plays up its ties to the establishment."

<sup>54</sup> Jidefor Adibe, "What Does Russia really want from Africa?"

Valdai Discussion Club, another Russian think tank, mentions that “Russia has considerable experience in the construction of nuclear power plants and modern nuclear technology with post-Fukushima safety enhancements.”<sup>55</sup> For example, *Rosatom* is building four nuclear power plants in Egypt and developing an existing nuclear plant in Nigeria. Furthermore, Egypt signed a 60-year service contract with *Rosatom*.<sup>56 57</sup> In total, Russia has signed almost 20 agreements to build and develop nuclear power plants across Africa.<sup>58</sup> However, building and developing the plants is not the only reason Russia is interested in this sector; Bugayova and Regio hypothesize that “Russia likely seeks to create a market for the full range of nuclear-related services including engineer training, fuel provision, and physical security.”<sup>59</sup> One could argue that Russia’s ultimate goal of the entire nuclear business in Africa is to make the African countries dependent on Russian services and knowledge (as this would create a continuous cash stream for Moscow).

On the other hand, it could be argued that the entire nuclear energy hype in Africa is yet another way of enriching Russian oligarchs. For instance, Sergey S. Ivanov has “served on the board of directors of *Atmostroiekспорт*, the state agency that manages all of Russia’s foreign nuclear projects.”<sup>60</sup> Furthermore, at least in the past, *Rosatom* has gotten gigantic loans from banks, which have been administrated by Putin’s allies. Good examples would be *Sberbank*, which was managed by Herman Gref (Putin’s colleague in St. Petersburg’s mayor’s office) and

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<sup>55</sup> Vadim Balytnikov, Oleg Barabanov, Andrei Yemelyanov, Dmitry Poletaev, Igos Sid, Natalia Zaiser, “Russia’s Return to Africa: Strategy and Prospects,” 9.

<sup>56</sup> Arnaud Kalika, “Russia’s Great Return to Africa?”

<sup>57</sup> Rosatom is a state-owned atomic agency.

<sup>58</sup> Joe Penney, “Vladimir Putin signed dozens of MOUs with African countries this week but can’t match China.”

<sup>59</sup> Bugayova, Nataliya, and Darina Regio. “The Kremlin’s Campaign in Africa: Assessment Update,” 3.

<sup>60</sup> Marten, Kimberly. “Informal political networks and Putin’s foreign policy: The examples of Iran and Syria,” 79.

*VTB* directed by Andrei Kostin (a former KGB operative).<sup>61</sup> This is yet another example of why it is so hard to conclusively categorize Russia's actions to private or national interest categories. Hence, it is my conclusion that the nuclear energy business between Russia and Africa is driven by both, the national and private economic interests.

Arms sales could be divided into its own category because of the geopolitical implications, but for the purposes of this study I will consider them to be under the 'economic umbrella.' Today, the Russian Federation is the "largest supplier of arms to Africa, accounting for over a third of all arms exports to the continent."<sup>62</sup> Adibe argues that "Russian arms are attractive to African leaders because, besides being relatively cheap, deals with Russia are not often held up by human rights concerns cited by other countries like France and the U.S."<sup>63</sup>

Russia's strongest sub-region in terms of arms sales is North Africa, accounting for almost 50 percent of total sales in Africa. For example, in 2014-2018, almost seventy percent of Algeria's arms imports came from Russia.<sup>64</sup> Sub-Saharan Africa also imports vast amounts of Russian weapons – 28 percent of all arms imports in 2014-2018 was from Russia. Naturally, arms sales are a very lucrative business for Russia and Putin's friends: "currently, exports of Russian-made weapons and military equipment to Africa amount to 4.6 billion USD annually, with a contract portfolio worth over 50 billion USD."<sup>65</sup> Furthermore, besides Mi helicopters, Sukhoi and MiG planes, Pantsir-C1 and Kornet-E missile defense systems, tanks, and small arms,

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<sup>61</sup> Marten, Kimberly. "Informal political networks and Putin's foreign policy: The examples of Iran and Syria," 79.

<sup>62</sup> Bugayova, Nataliya, and Darina Regio. "The Kremlin's Campaign in Africa: Assessment Update," 6.

<sup>63</sup> Jideofor Adibe, "What Does Russia really want from Africa?" Also, a report published (03/2018) by the Institute for Security Studies mentions that this comparative advantage will probably not change anytime soon.

<sup>64</sup> Pieter Wezeman, Aude Fleurant, Alexandra Kuimova, Nan Tian, Siemon Wezeman, "Trends in international arms transfers 2018," 8.

<sup>65</sup> Jakob Hedenskog, "Russia is Stepping Up its Military Cooperation in Africa," 2.

the Russian Defense Ministry is involved in selling 'education of army personnel' (sending Russian soldiers to train African troops) for various African countries.<sup>66</sup>

Arms sales are also a very profitable business for Russian oligarchs. For example, *Rostec*, which is led by Chemezov, controls *Rosoboronexport*, which is the "only state-controlled intermediary in the area of exports and imports of the entire range of military technologies and services."<sup>67</sup> The CEO of *Rosoboronexport* is Alexander Mikheev, who recently bought a multimillion-dollar mansion.<sup>68</sup> Thus, as is the case with the nuclear energy business, arms sales in Africa certainly enrich a handful of Russian business moguls. Nevertheless, because the state is so heavily involved in arms exports business, it would be reasonable to think that at least some of the profits come back to the Russian state, and hence the public.

Some reports suggest that the West can only blame itself for Russia's increased (military) influence in Africa. For example, when "United Kingdom and the United States were slow to respond to Nigeria's request for help, Nigeria turned to Russia for counter-terrorism training."<sup>69</sup> Moreover, scholars have argued that the West has not done enough to protect African countries from dictators, for example. Nevertheless, one should not forget the importance of the Soviet legacy in Africa. First, Russia never was a colonizer in Africa. As scholars at Valdai Discussion Club argue, "Russia has never subjugated Africa, neither politically nor economically, and does not carry the burden of slave trade."<sup>70</sup> In fact, the Soviet Union backed many of the anti-colonial movements in the region.

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<sup>66</sup> Olga Kulkova, "What Russia Can Offer Africa."

<sup>67</sup> Rosoboronexport, "About."

<sup>68</sup> Crime in Russia, "Head of Rosoboronexport Acquires Mansion for 15.5 million."

<sup>69</sup> Jakob Hedenskog, "Russia is Stepping Up its Military Cooperation in Africa," 2.

<sup>70</sup> Vadim Balytnikov, Oleg Barabanov, Andrei Yemelyanov, Dmitry Poletaev, Igos Sid, Natalia Zaiser, "Russia's Return to Africa: Strategy and Prospects," 4.

Second, during the Cold War, Russia “had long-term access to bases in Egypt, Libya, Algeria, Tunisia, Ethiopia, Somalia, and Guinea.”<sup>71</sup> Because of this, many of the African countries see Russia as a trustworthy partner, and thus, Russia’s ‘new’ military presence in the region is not surprising. Moreover, Bugayova and Regio argue that Russia took advantage of historic relationships when signing military cooperation agreements with almost thirty African countries.<sup>72</sup> Figure 2 in the Appendix shows all African countries with whom Russia currently has some sort of cooperation or agreements. Figure 3 specifies some military cooperation agreements signed by Russia and various African states since 2015. It should be mentioned that the historic relationship between Russia and various African countries is not limited to only military cooperation. For example, in 1968, “more than 500 Soviet instructors and teachers were working in Africa.”<sup>73</sup> Moreover, during the Cold War, the Soviet Union provided generous economic aid for building schools and school related infrastructure in Africa.

#### Central African Republic – a Russian experiment?

Jakob Hedenskog argues that Russia wants to build good relations with African countries via military ties because it wants to improve its situation in the United Nations (UN). In short, Russia seeks to get votes (in the UN) from African countries on various issues such as the annexation of the Crimean Peninsula.<sup>74</sup> In fact, former national security advisor John Bolton believes that Russia “continues to sell arms and energy in exchange for votes at the United

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<sup>71</sup> Jakob Hedenskog, "Russia is Stepping Up its Military Cooperation in Africa," 2.

<sup>72</sup> Bugayova, Nataliya, and Darina Regio. "The Kremlin's Campaign in Africa: Assessment Update," 6.

<sup>73</sup> The USSR and International Education: A Brief Overview, 248.

<sup>74</sup> Jakob Hedenskog, "Russia is Stepping Up its Military Cooperation in Africa," 2.

Nations – votes that keep strongmen in power, undermine peace and security, and run counter to the best interests of the African people.”<sup>75</sup> Nevertheless, Russia’s methods of gaining support have changed since the Soviet times. Hedenskog mentions that unlike during the Cold War, modern Russia is using “private military companies as tools for expanding and promoting Russian interests” in Africa.<sup>76</sup> These private companies are then partly used to extract gold, diamonds, and other precious materials from Africa. Subsequently, the owners of these companies, who almost always are connected to the Kremlin, obtain enormous monetary profits. Officially authorizing or silently approving the use of private military contractors (PMC) in Africa is one of the ways how Moscow, and Putin in particular, rewards his allies for staying loyal.

The Central African Republic is perhaps the most blatant example of how Russia gains political and economic influence in an African country. In a statement (given on 02/07/2019) before the Senate Committee on Armed Services, an American military commander working in Africa stated the following: “in the Central African Republic, Russia has bolstered its influence with increased military cooperation including donations of arms, with which it has gained access to markets and mineral extraction rights [and] with minimal investment, Russia leverages private military contractors such as the Wagner Group, and in return receive political and economic influence beneficial to them.”<sup>77</sup>

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<sup>75</sup> “Remarks by National Security Advisor Ambassador John R. Bolton on the Trump Administration’s New Africa Strategy”

<sup>76</sup> Jakob Hedenskog, "Russia is Stepping Up its Military Cooperation in Africa," 2.

<sup>77</sup> “Statement of Genral Thomas D. Waldhauser before the Senate Committee on Armed Services,” 32-33.

The Wagner Group is a notorious private military contractor, which has operated in Nigeria, Crimea, Eastern Ukraine, Syria, Sudan, and now the Central African Republic (CAR).<sup>78</sup> The Wagner Group is mainly linked to a Russian businessman Prigozhin, but some scholars have hypothesized that maybe Wagner was created by the Russian military intelligence agency *Glavnoye razvedyvatel'noye upravleniye* (GRU) to provide plausible deniability for Moscow.<sup>79</sup> Whatever the truth, Wagner has now rooted itself into the CAR. Marten states that “private Russian firms associated with Prigozhin are gaining mining concessions in return for having Wagner train the African states’ security forces.”<sup>80</sup> It is also highly likely that Wagner is providing protection for prominent government officials as well as guarding the gold and diamond mines. Moreover, CAR’s President Faustin-Archange Touadéra now has a new national security advisor – Valery Zakharov, who is a former Russian intelligence officer.<sup>81</sup>

Reynolds has argued that PMCs, and Wagner Group in particular, are just another foreign policy tool for the Kremlin. He hypothesizes that the Russian government has played a crucial role in helping Russian companies to sign mining deals in CAR. Furthermore, Reynolds mentions that these deals have no significance for the Russian economy as a whole. Rather, they are “payoffs to Prigozhin, helping him to finance and profit from Wagner in return for aiding the Kremlin’s foreign policy ambitions.”<sup>82</sup> Nevertheless, it is obvious that Russia has gained massive political influence in the Central African Republic. It still not entirely clear whether Russia is genuinely interested in increasing its influence in CAR or if Russia is

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<sup>78</sup> Marten, Kimberly. "Russia's use of semi-state security forces: the case of the Wagner Group," 181.

<sup>79</sup> Marten, Kimberly. "Russia's use of semi-state security forces: the case of the Wagner Group," 192 and Reynolds, Nathaniel. "Putin's Not-so-secret Mercenaries: Patronage, Geopolitics, and the Wagner Group."

<sup>80</sup> Marten, Kimberly. "Russia's use of semi-state security forces: the case of the Wagner Group" pg. 196.

<sup>81</sup> Marten Kimberly, "Russ-Afrique? Russia, France, and the Central African Republic."

<sup>82</sup> Reynolds, Nathaniel. "Putin's Not-so-secret Mercenaries: Patronage, Geopolitics, and the Wagner Group."

conducting an 'experiment' (experimenting how swiftly and easily Russia can gain certain amount of political and economic control in a country).

It should be mentioned that CAR is one of the least developed countries on earth and its geopolitical importance is rather insignificant. Thus, whatever Russia is doing in CAR has not yet had real impact on a larger scale. However, if the experience from the 'CAR experiment' is good, there is no reason why Russia would not use similar tactics in other countries as well, perhaps even outside the African continent. What is more, while the geopolitical implications are rather minor, the people behind the PMCs and mining companies are gaining gigantic profits. Hence, it can be concluded that a significant reason for conducting the 'CAR experiment' seems to be rewarding Putin's acquaintances. Nevertheless, as discussed above, Central African Republic, for example, has voting rights in the UN. This means that Russia's political influence in CAR could directly translate into political capital in the UN. Therefore, it would be reasonable to consider that Russia has some national interest involved in this situation.

#### Challenges – a critical view of Russia's pivot to Africa

Even though the Kremlin has been reasonably successful in increasing its political and economic significance in various African countries, there is no doubt that Russia will face a number of difficulties in Africa. One of the most vocal critics has been Kimberly Marten, who argues that there are four major reasons why Russia's pivot to Africa will fail or at least face serious



challenges. First, Marten reasons that Russia is simply late to the game since the United States, the European Union, and China have developed diverse connections and investments with many African countries.<sup>83</sup> Also, Marten sees Russia's history with African countries as a liability: "Moscow is saddled with a burden of distrust after it left most of its old allies hanging in the early 1990s."<sup>84</sup> Thus, Marten claims that because of the mistrust stemming from the events in the 1990s (when Russia's economy crashed, it swiftly deserted its African partners), contemporary leaders of African states could be reluctant to do business with Russia.<sup>85</sup> Nevertheless, because the current political situation in Russia is rather stable, this is an unlikely scenario.

The second reason Russia may face difficulties in Africa is Russia's stagnating economy and low levels of innovation and growth. Russia's economy is still heavily dependent on hydrocarbon exports and thus any global economic turmoil, especially in the energy sector, will have a serious impact on the entire Russian economy. What is more, Russia's deals in Africa have focused only on Russian markets (i.e. only bilateral trade agreements), while China's "Belt and Road Initiative promises increased access to global markets."<sup>86</sup> Hence, it could be possible that African countries choose to do business with China instead of Russia. Partly because of this, some scholars have argued that Russia's economic impact in Africa is much smaller than one would think.<sup>87</sup> Moreover, Kalika hypothesizes that Russian companies "have a vital need to

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<sup>83</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 157.

<sup>84</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 157.

<sup>85</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 157.

<sup>86</sup> Marten, Kimberly. "Russia's Back in Africa: Is the Cold War Returning?" 158.

<sup>87</sup> Arnaud Kalika, "Russia's Great Return to Africa?" 27.

export to markets that are not subject to sanctions [and thus] Russia now needs Africa more than Africa needs Russia.”<sup>88</sup>

Marten argues that the third reason for Russia’s challenges in Africa is the fact that no matter how much effort Russia puts into pressuring African countries to vote in favor of Russia in the United Nations, the United States, for example, will always have its veto power. Thus, it is unlikely that Russia will be able to pass any crucial decisions with help from the African states. More specifically, African countries can only participate in the General Assembly (GA) votes. Although the GA resolutions have significance, “they do not come with any enforcement mechanism.”<sup>89</sup> That is not to say that Russia could not benefit from African votes, at least when voting about ‘less important’ things. For example, these resolutions could have impact how and where Russian companies and businesses can operate. Since Putin’s allies are associated with so many firms, this kind of a UN resolution could have impact on further strengthening Putin’s and his network’s support in Russia (Putin delivers more business opportunities to oligarchs via UN, and thus the patron-client relationship strengthens).

Ironically, according to Marten, the most crucial reason for the lack of Russia’s potential influence in Africa is that “Moscow is operating under an individualistic, patronage-based model of politics and business, where corrupt factors are exchanged...on the basis of longstanding personal loyalties, but no lasting institutional relationships are built.”<sup>90</sup> In short, this means that Putin, for example, delivers business opportunities to his friends, who in return support Putin’s political agenda. One of the best examples of this is the Russian media industry:

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<sup>88</sup> Arnaud Kalika, “Russia’s Great Return to Africa?” 27.

<sup>89</sup> Marten, Kimberly. "Russia’s Back in Africa: Is the Cold War Returning?" 159.

<sup>90</sup> Marten, Kimberly. "Russia’s Back in Africa: Is the Cold War Returning?" 159.

virtually all major news outlets in Russia are state-owned and operated. Moreover, the directors of these agencies have direct or indirect linkages to the Kremlin. For instance, the Director General of TASS, Sergey Mikhaylov, “worked as an adviser to Vladimir Yakunin [who] is a longtime intimate associate and business partner of President Vladimir Putin.”<sup>91</sup> Also, by following the ownership structures of all major media outlets in Russia, one can find linkages to many banks, which have been connected to Putin’s inner circle – *Gazprombank*, *Bank Rossiya*, and *Sberbank*, to name a few.

Although some African leaders have adopted this ‘patron-client’ way of conducting politics (CAR, for example), the general trend on the African continent seems to be that countries are slowly shifting away from dictatorships. Marten argues that “democratic ideas have become entrenched across African populations, even if corruption and repression still hinder true liberal democratic institutionalization in many places.”<sup>92</sup> In other words, if Russia wants to continue building truly strong and lasting political and economic relationships with African countries, Russia cannot continue using patron-client style politics and business in Africa

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<sup>91</sup> RadioFreeEurope, “Police Raid Offices Of Russian State News Agency.”

<sup>92</sup> Marten, Kimberly. “Russia’s Back in Africa: Is the Cold War Returning?” 159.

## Russia and the Crimean Peninsula

Arguably, the annexation of the Crimean Peninsula has been the most significant geopolitical conflict in the last decade. Historically speaking, the Crimean Peninsula belonged to Russia for almost 200 years from the late 1700s until the mid-1950s. In 1954, the President of the Soviet Union Nikita Khrushchev, and the Presidium of the Supreme Soviet, decided to transfer the ownership of the Crimean Peninsula to the Ukrainian Soviet Socialist Republic. The Peninsula remained as Ukrainian territory until 2014 when Russian aggression in the region started. In short, scholars agree that there are three main reasons why Russia decided to take over the Crimean Peninsula.

First, Russia's Black Sea Fleet is stationed in Sevastopol, a city in the Southern Crimea. Prior to 2014, Russia had been leasing the warm water ports for its navy. It has always been in Russia's interest to secure its access to the Black Sea forever, and one of the ways was to become the de-facto owner of the Crimean Peninsula. Second, in the 2010s, due to the Euromaidan, Ukraine faced a number of upheavals on its domestic front. Pro-Western protesters and rioters were regularly on the streets demanding more cooperation with the European Union, for example. As a result, Russia "viewed the prospect of integration with the West as a threat to its sphere of influence" and decided to make a decisive move to secure the control of the geopolitically important Peninsula.<sup>93</sup> Third, Russia's use of unconventional proxy war tactics in the annexation, such as sending the 'Little Green Men' to Crimea, was clearly a warning of what might happen if Russia feels threatened within its sphere of influence.

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<sup>93</sup> The United States Army Special Operations Command, "Little Green Men: a primer on Modern Russian Unconventional Warfare, Ukraine 2013-2014."

Naturally, the warning was targeted primarily towards the members of the Commonwealth of Independent States.

The following chapter argues that there is a fourth important reason behind the annexation of the Crimean Peninsula – an economic reason. In essence, I argue that Russia as a nation, as well as private individuals close to the Kremlin, have been profiting and will be able to profit financially from the annexation of the Crimean Peninsula. The economic dimension is further divided into three sub-categories, which are 1) extraction of natural resources, such as oil and shale gas, from the Black Sea shelf, 2) the relationship between Crimea and the recent Russia-China gas exporting contract, and 3) how Crimean infrastructural projects have become just another platform to transfer Russian state-owned wealth to Vladimir Putin’s acquaintances.

#### Crimean Exclusive Economic Zone – the true treasure of Crimea

There are many significant reasons why Russia decided to annex Crimea. The Peninsula offers warm water ports for the Russian Black Sea Fleet, from a geopolitical perspective Crimea is located in a very strategic position on the coast of the Black Sea, and Vladimir Putin managed to increase his approval ratings after the incident.<sup>94</sup> However, the real treasure rests in the Crimean Exclusive Economic Zone (EEZ, see *Map 1*). According to the U.N. Convention on the Law of the Sea (UNCLOS), the EEZ is the sea area adjacent to the coastal territory, not extending

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<sup>94</sup> Sputnik News, “Putin’s Approval Rating Reaches Six-year High – Poll.”



Map 1 Crimean EEZ. Source: "As Russia Closes In On Crimea's Energy Resources, What Is Next For Ukraine?"

beyond 200 nautical miles from the baselines from which the territorial sea is measured. It has been estimated that the "claimed maritime zone around Crimea added about 36,000 square miles to Russia's existing holdings...the addition is more than three times the size of the Crimean landmass."<sup>95</sup>

Within the EEZ, the owner has "sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources of the seabed and its subsoil [and] production of energy from the water, currents, and winds."<sup>96</sup> In other words, this means that Russia owns all natural resources found within the Crimean EEZ. Moreover, Russia has the right to decide how those resources are used, who has the right to use them, and when those assets are used. Understanding the significance of the Crimean EEZ is fundamental for this study

<sup>95</sup> William Broad, "In taking Crimea, Putin Gains a Sea of Fuel Reserves."

<sup>96</sup> United Nations Convention on the Law of the Sea, 43-44.

because without the UNCLOS, it is possible that Russia would not be the undisputed owner of the Crimean natural resources within the 200-mile radius from the coast.

### Overview of the oil and gas deposits on the Black Sea shelf

Unfortunately, there is only little detailed information available about the potential oil and gas reserves on the Black Sea shelf within the Crimean Exclusive Economic Zone. As Keypour and Hendla have argued, “when it comes to the Crimean energy resources, no unanimously accepted prognoses are available.”<sup>97</sup> Nevertheless, by gathering information from multiple different sources, it is possible to present a very rough idea of the potential resources. For example, the three tables below show the estimates of ‘KT-Energy,’ which is a consultancy company on nontraditional energy and carbon emission reduction projects (for the location of these fields, see *Map 2*). Other sources estimate that the “Crimean territory has 44 hydrocarbon fields, 7 gas condensate reservoirs, and 10 oil and 27 gas fields...natural gas reserves of 165.3 billion cubic meters, 47 million tons of oil and 18.2 million tons of gas condensate.”<sup>98</sup> To put this into perspective, it is estimated that in 2018, Russia produced 669 billion cubic meters of natural gas and 11 million barrels of oil per day (approximately 1.5 million tons of oil).<sup>99</sup>

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<sup>97</sup> Keypour, Javad, and Ivar Hendla. "The Annexation of Crimea: A Realist Look from the Energy Resources Perspective," 155.

<sup>98</sup> Keypour, Javad, and Ivar Hendla. "The Annexation of Crimea: A Realist Look from the Energy Resources Perspective," 155.

<sup>99</sup> British Petroleum, “BP Statistical Review.”

It should be mentioned that most of the gas available within the Crimean EEZ is so-called unconventional gas, or shale gas. As Zhiltsov explains, “natural shale gas refers to unconventional hydrocarbons, and it is a variety of natural gas [which means that] natural gas is trapped in clay shales, coalbed methane and tight gas in dense sandstones, occurring at great depths under not high pressure in geological zones.”<sup>100</sup> Naturally, the exploration and extraction costs of shale gas are very high. For example, it is estimated that extracting 1000 cubic meters of shale gas costs around 20-40 USD.<sup>101</sup> Thus, Russia would need to spend astronomical amounts of money to get its hands on these resources.

Nonetheless, it could be argued that prior to the annexation of the Crimean Peninsula, the Kremlin was well aware of these costs, and thus some state-owned Russian companies might start operating in the region in the near future. Also, with large initial investments, the extraction rates for shale gas can be dramatically increased, meaning that *Gazprom*, for example, could start extracting substantial amounts of shale gas very quickly. If the Kremlin decides to invest state money into this, it is quite likely that companies associated with Putin’s acquaintances will be given some extraction rights in the area. It remains to be seen which companies will be given these extraction privileges. Another possibility could be selling Crimean gas extraction licenses to foreign companies, just like Ukraine did prior to the annexation. This would allow Russia to gather risk-free revenue, but the potential profits would be far less than if Russia extracted the resources itself. Hence, it is improbable that Russia would sell licenses

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<sup>100</sup> Zhiltsov, Sergey S., ed. *Shale Gas: Ecology, Politics, Economy*. Springer International Publishing, 2017, 2.

<sup>101</sup> Unconventional Gas in Ukraine, “Main deposits of oil and gas on Black Sea shelf.”



because Russia desperately needs the natural resources and many companies are barred from doing business in Crimea because of the international economic sanctions.

**Table 1: Prikerchenska Area**

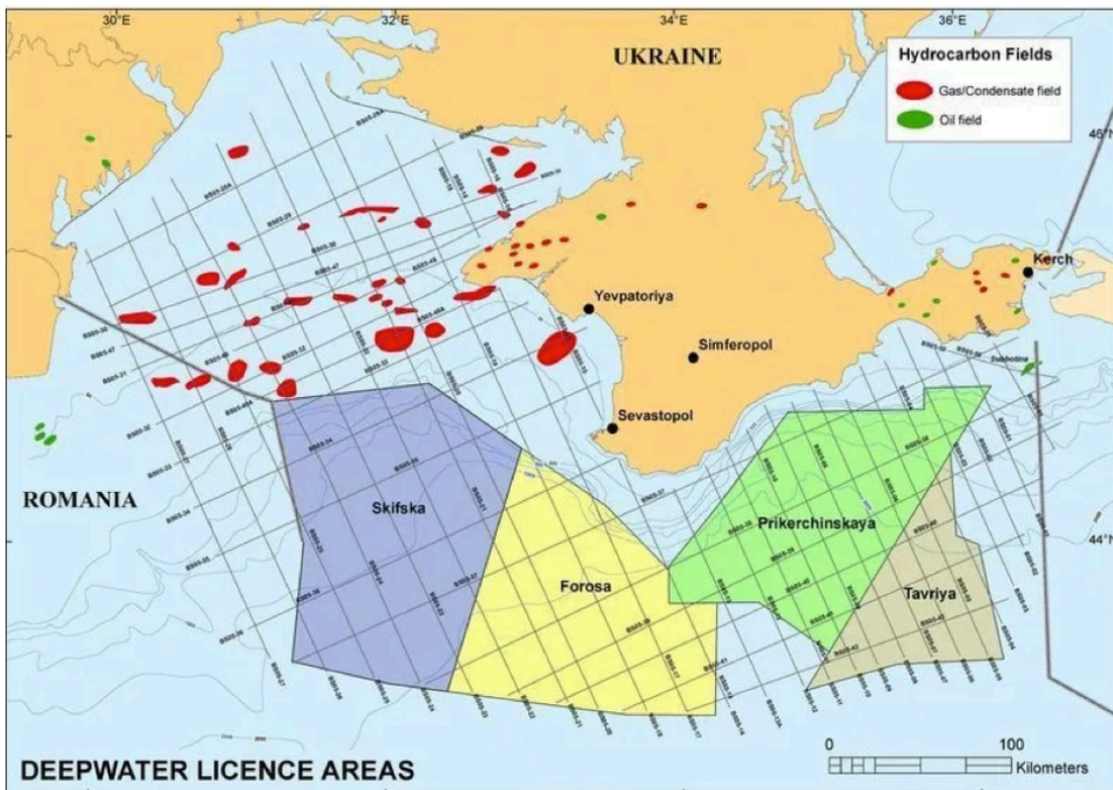
Area size, square km.	12960
Sea depth at the site	300-2000 meters
Potential yearly extraction rate	4 million tonnes of oil, 4.5 billion cubic meters of natural gas
Potential reserves	Unknown, needs more investment into exploration

**Table 2: Skifska Area**

Area size, square km.	16000
Sea depth at the site	300-2000 meters
Potential yearly extraction rate	10 billion cubic meters of natural gas
Potential reserves	200-250 billion cubic meters of natural gas

**Table 3: Forosa Area**

Area size, square km.	13615
Sea depth at the site	Unknown
Potential yearly extraction rate	2-3 billion cubic meters of natural gas
Potential reserves	Unknown, needs more investment into exploration



Map 2 Oil and gas fields in Crimean EEZ. Source: "As Russia Closes In On Crimea's Energy Resources, What Is Next For Ukraine?"

Pipelines, bridges, and billions of dollars – how the Kremlin and selected group of prominent Russian businessmen profit from the annexation of the Crimean Peninsula

When Ukraine lost the Crimean Peninsula to Russia in 2014, a Ukrainian company called *Chornomornaftogaz* and all of its assets were transferred to the Russian state-owned company *Gazprom*. The confiscation was very swift – *Gazprom* sent a group of trusted employees to take over the *Chornomornaftogaz's* headquarters, and Russian naval personnel, without any insignia in their uniforms, took over the oil and gas rigs under their control. Immediately after the seizure, Ukraine lost approximately 2 billion cubic meters of stored gas. Ukrainian media has reported that by 2018, "Russia seized some 7 billion cubic meters of natural gas from nine

producing fields around Crimea since the annexation.” Over half of the gas was extracted from the Odesa gas field.<sup>102</sup> This was a rather serious hit for Ukraine because it produces only about 20 billion cubic meters of natural gas per year and consumes over 30 billion cubic meters per annum.<sup>103</sup>

Ukraine’s former Energy and Coal Industry Minister has said that Ukraine’s initial losses are about \$300 billion if all energy facilities in Crimea are included. This number does not contain the potential revenue gained from extracting gas or oil from the Black Sea. Ukraine has said that it will try to get back *Chernomornaftogaz’s* annexed equipment by officially declaring it stolen. However, it is unlikely that Ukraine will ever see the equipment again – possible legal fights could take years and/or Russia could simply not honor the possible decision made by the Permanent Court of Arbitration (PCA). Predictably, after the annexation, Ukraine lost all of its deals with foreign energy companies regarding the Crimean hydrocarbon business. For example, in 2013, *ExxonMobil*, *Shell*, and few other sizeable firms signed a “production agreement for Crimean Skifska offshore block, pledging to invest \$400 million in the initial exploration...in a deal worth more than \$12 billion.”<sup>104</sup> This agreement was terminated immediately after the events in 2014.

Some argue that the “consortium led by *Exxon Mobil* and *Royal Dutch Shell* may have strongly predisposed Russia to support the referendum, which resulted in the reunion of Crimea with Russia.”<sup>105</sup> Although this is a viable theory, I would argue that the Skifska gas field,

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<sup>102</sup> Ukrinform, “Chornomornaftogaz: Russia has stolen more than 3.5 bln cu m of Ukrainian gas.”

<sup>103</sup> Central Intelligence Agency, “The World Factbook: Ukraine.”

<sup>104</sup> John C. K. Daly, “Ukraine Claims Energy Losses for Crimean Annexation Reach \$300 Billion.”

<sup>105</sup> Greg Rose, “Exxon Mobil deal with Ukraine factors in Russia’s Crimea policy.”

which is estimated to hold over 200 billion cubic meters of natural gas, is just one piece of the Crimean puzzle, since there are numerous lucrative oil and gas fields in the Crimean EEZ. It is more likely that Russia simply needed to find new gas and oil sources after the new energy deal with China was signed.

As Biersack and O’Lear argue, there is a “silent, though evident, connection between Crimea’s annexation and Russia’s shift eastward for energy.”<sup>106</sup> In recent years, Russia has signed multiple deals with China, worth almost half a trillion U.S. dollars. For example, the contracts include the construction of a new pipeline and 30-year-long transportation agreements for supplying roughly 40 billion cubic meters of gas annually to *China National Petroleum Corp.* The Russian counterpart in both of these deals is *Gazprom*. There are two primary reasons why Crimea is vital for this historic bilateral energy agreement.

First, it has been argued that “the monumental gas agreement reached between China and Russia on 21 May [2014] appeared to be catalyzed by the annexation on Crimea.”<sup>107</sup> In other words, immediately after Russia was sure that it would gain access to the untapped Black Sea energy reserves, it was ready to sign the contract with China. Moreover, since China’s natural gas consumption has risen by almost 2000 percent in the last 40 years, and is anticipated to grow at least until 2050, I predict that a large share of Crimean natural gas will find its way to China.<sup>108</sup> It is not today that the natural gas from Crimea will literally be going to

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<sup>106</sup> Biersack, John, and Shannon O’Lear. "The geopolitics of Russia's annexation of Crimea: narratives, identity, silences, and energy," 260.

<sup>107</sup> Biersack, John, and Shannon O’Lear. "The geopolitics of Russia's annexation of Crimea: narratives, identity, silences, and energy," 261.

<sup>108</sup> China Daily, “China’s natural gas consumption to keep growing before 2050: report.”

China. Rather, the point is that Russia's overall gas production capacity has increased after it took over Crimea.

The second reason why Crimea is so important for the Russia-China contract is that Russia will be forced to compete against other gas suppliers in China. It would be "safe to assume that Russian gas to China will be sold at lower margins compared to European shipments."<sup>109</sup> Thus, since Russia now controls the vast gas reserves in the Crimean Exclusive Economic Zone, Russia will be able to afford to cut prices for the Chinese gas deliveries. The speed at which Russia and China signed the deal after the annexation of Crimea indicates that Russia was desperately looking for a way to offset the price cuts in China (the deal has been in the works from 2006).

The Russia-China natural gas contract is also an excellent example of how the Kremlin rewards Putin's close allies with very lucrative government contracts. As mentioned above, the construction of a pipeline is one part of the contract. There have been estimates that the "cost of constructing processing facilities and pipeline to China will cost Russia \$70 billion."<sup>110</sup> Reportedly, China offered a loan of \$50 billion for the construction of the pipeline up to the Chinese border.<sup>111</sup> The name of the pipeline is the Power of Siberia, and it runs for over 8000 kilometers across Russia and China. For the purpose of this study, I will concentrate on the approximately 3000-kilometer stretch that runs within Russia. The following pages are devoted to examining how Vladimir Putin's close allies have been able to get their hands on the Chinese

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<sup>109</sup> Ariel Cohen, "The Strategic Upside Behind Russia's \$55 Billion 'Power of Siberia' Pipeline To China."

<sup>110</sup> Biersack, John, and Shannon O'Lear. "The geopolitics of Russia's annexation of Crimea: narratives, identity, silences, and energy," 261.

<sup>111</sup> Jane Perlez, "China and Russia Reach 30-Year Gas Deal."

\$50 billion loan given to the Russian government and how the Kremlin has rewarded Putin's associates with enormous infrastructural projects in the Crimean Peninsula.

Gennady Timchenko is often regarded as one of the most influential people in Russia. With a net worth of over 20 billion U.S. dollars, he is also one of the wealthiest people on the planet.<sup>112</sup> Timchenko made his fortune in the 1990s when he began trading oil in St. Petersburg. Subsequently, Timchenko co-founded a company called *Gunvor*, which eventually became “one of the world’s largest independent commodity trading companies involved in the oil and energy markets.”<sup>113</sup> Timchenko is also Vladimir Putin’s close friend and associate, and Putin is said to have investments in *Gunvor*. In fact, the men are so close that some call Timchenko Putin’s personal wallet.<sup>114</sup> It is a commonly accepted consensus that Putin’s emerging political career in St. Petersburg in the 1990s gave Timchenko and his companies an incredible boost in the Russian business sector.

Since then, Timchenko has attained significant or total control in multiple sizeable Russian businesses. For example, Gennady Timchenko holds major positions in *Bank Rossiya* (Russian bank), *Sobinbank* (Russian bank), *Volga Group* (investment and holding company), *Novatek* (Russia’s second-largest natural gas producer), *Avia Group* (company in business aviation sector), *Sakhatrans* (coal transportation company), *Transoil* (oil and oil product

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<sup>112</sup> Forbes List of Real-Time Billionaires, “Gennady Timchenko.”

<sup>113</sup> U.S. Department Of The Treasury, “Treasury Sanctions Russian Officials, Members Of The Russian Leadership’s Inner Circle, And An Entity For Involvement In The Situation In Ukraine.”

<sup>114</sup> Znak News, Миллиардер и друг Путина Тимченко после введения санкций заявил, что готов отдать все свои активы государству. «Мы с женой обсуждали, нам миллиарды не нужны» (Znak News, “Billionaire and Putin’s Friend Timchenko announced that he is ready to give all his assets to the government – ‘we have talked about this with my wife, we don’t need the billions”).

transportation company), *Aquanika* (Russian manufacturer of mineral water and soft drinks), and *Stroytransgaz* (construction company).<sup>115</sup>

Timchenko is directly affiliated with the Power of Siberia pipeline through his *Stroytransgaz* company. The firm was one of the main contractors of the entire pipeline project within the Russian borders.<sup>116</sup> Moreover, another oligarch named Arkady Rotenberg, and his brother Boris, were also deeply involved in the Power of Siberia pipeline deal. Arkady's construction company *Stroygazmontazh* was the other main contractor in the agreement and it "built a 1126-km-long section of the gas pipeline from the Neryungri district of the Republic of Sakha (Yakutia) to the border of the People's Republic of China."<sup>117</sup>

This is an excellent example of how national and private interests are intertwined – the Russian government signs a deal with another entity (in this case exporting gas to China), China provides a loan, and the Kremlin awards construction and maintenance projects to Russian companies controlled by Putin's allies. With a single contract Russia is able to increase its exports, gain geopolitical influence, receive a gigantic loan with favorable interest, and transfer government money to Putin's inner circle. It should be mentioned that officially, there is always a tender for these enormous government-sponsored projects, but every year the same group of companies win the bids. For example, in 2014, Rotenberg's *Stroygazmontazh* won 279 out of 374 tenders. The aggregate value of the bids *Stroygazmontazh* attained was approximately 230 billion rubles (\$3.5 billion).<sup>118</sup>

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<sup>115</sup>Alexey Kobylanskiy, "Sanctioned Russian companies – brief analysis and legal basis."

<sup>116</sup> Interfax, «Стройтрансгаз без конкурса получил подряд на второй участок "Силы Сибири"» ("Stroytransgaz was given yet another contract for the Power of Siberia")

<sup>117</sup> Stroygazmontazh, Projects, "The Power of Siberia gas pipeline."

<sup>118</sup> Vedomosti News, «Стройгазмонтаж Ротенберга стал крупнейшим подрядчиком в 2014 году» ("Stroygazmontazh became a major contractor in 2014")

The Rotenberg brothers, Arkady and Boris, have a total net worth of over \$4 billion. According to the U.S. Department of the Treasury, “both brothers have amassed enormous amounts of wealth during the years of Putin’s rule in Russia.”<sup>119</sup> For example, Rotenbergs were given contracts worth over \$7 billion for constructing infrastructure for the Sochi Winter Olympics in 2014. It is often said that the Rotenberg brothers are Putin’s closest allies. In fact, Putin has known the brothers since the early 1960s. Arkady Rotenberg first met Putin at a judo club in 1963. They “became sparring partners and friends, and have remained close ever since.”<sup>120</sup> At a later date the two traveled across the Soviet Union and became even closer. Once Putin started working in the St. Petersburg’s mayor’s office in the 1990s, the Rotenberg brothers started gaining various government-sponsored grants for their business projects.

Today, Arkady and Boris Rotenberg are linked to a number of prominent companies in Russia, including the *SMP bank*, *Investcapitalbank*, *Stroygazmontazh*, and *Mostotrest*. Especially the older brother Arkady has become a central player in the Russian construction business. Among other things, he is involved in the highway, gas pipeline, and bridge projects. What is more, Arkady’s son Igor Rotenberg has also become a successful construction mogul in Russia. For example, in 2015, Igor’s company was given over a billion-dollar contract to build toll system infrastructure on Russian highways.<sup>121</sup>

Arkady Rotenberg’s latest project, and the one most relevant to this study, is the giant Kerch Strait Bridge connecting the Crimean Peninsula with mainland Russia. The bridge is

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<sup>119</sup> U.S. Department Of The Treasury, “Treasury Sanctions Russian Officials, Members Of The Russian Leadership’s Inner Circle, And An Entity For Involvement In The Situation In Ukraine.”

<sup>120</sup> Joshua Yaffa, “Putin’s Cabinet and the Bridge to Crimea.”

<sup>121</sup> Joshua Yaffa, “Putin’s Cabinet and the Bridge to Crimea.”



almost 19 kilometers long, making it the longest bridge in Europe. Besides its strategic importance, the Crimean Bridge has a significant symbolic meaning for the Russian public; it “marks the physical reunification of Crimea with the Russian mainland.”<sup>122</sup> For Arkady Rotenberg, however, the importance of the bridge is also deeply financial. RIA Novosti, a Russian state-owned news agency, reported that the cost of the bridge was approximately \$3.4 billion, although the real cost is probably well over \$4 billion.<sup>123</sup>

The bridge contract, which was entirely paid for by the Russian government, was given to *Stroygazmontazh*, Arkady Rotenberg’s construction company. Other smaller contracts were also handed out, for example, to Rotenberg’s *Mostotrest*, a company specialized in the “construction and overhaul of road, rail and city bridges and highways.”<sup>124</sup> Furthermore, Rotenberg’s companies also secured the contract for building the railway line on the bridge (worth approximately \$285 million).<sup>125</sup> These companies have been magnificent cash cows for Rotenberg: in the last ten years, the overall revenue of Rotenberg’s companies has been well over \$10 billion.

When examining Russian building projects, whether a gas pipeline or bridge project, certain peculiarities persist year after year. Most notably, Russian infrastructure projects seem to cost way more than similar projects in other parts of the world. For example, when *Gazprom* built (contracted with other companies) new pipelines in Russia in the 2010s, “they were two to three times more expensive than equivalent projects in Europe, even when they were in

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<sup>122</sup> Nathan Hodge, “Russia’s bridge to Crimea: A metaphor for the Putin era.”

<sup>123</sup> RIA Novosti, «Строительство моста через Керченский пролив. Съёмка с коптера» (“Building the Kerch Strait Bridge – a video from a helicopter”).

<sup>124</sup> Mostotrest, “About Us.”

<sup>125</sup> The Moscow Times, “Putin’s Judo Partner Awarded \$285M Contract for Crimea Railway.”

temperate, accessible areas in southern Russia.”<sup>126</sup> In other words, there seems to be a serious issue with a rather blatant price inflation when something gets built in Russia. Thus, it would not be unreasonable to assume that Russian taxpayers probably heftily overpaid for the Kerch Strait Bridge.

In light of the above facts, it is rather easy to argue that corruption is very widespread in Russia. In fact, corruption has reached humorous levels. In 2014, for instance, Vladimir Putin was the mastermind behind the ‘purge’ of schoolbooks in Russia. The first step was to sell the state-owned textbook provider to private individuals, in this case, Arkady Rotenberg. The second step was to make the company the sole provider of textbooks for Russian schools by eliminating any competition it could face. Fortunately, there is evidence that the Kremlin is using some of its resources to fight corruption; in 2019, a company called *Granat LLP* was given a renewable contract worth almost \$700,000 to “conduct training on civil-society development and combating corruption.”<sup>127 128</sup> Interestingly, *Granat LLP* is owned by Arkady Rotenberg.

As I have argued, the Kremlin is very generous in handing out contracts to Vladimir Putin’s friends. Moreover, since the Crimean Peninsula plays such an important role for the Kremlin, I hypothesize that the Kerch Strait Bridge is only the first major government-sponsored project being done in Crimea. There are endless possibilities for how Putin could reward his allies, whether with infrastructural building contracts on the land or building and developing the gas and oil pipeline networks in the Exclusive Economic Zone on the Black Sea shelf.

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<sup>126</sup> Joshua Yaffa, “Putin’s Cabinet and the Bridge to Crimea.”

<sup>127</sup> RadioFreeEurope, “Company Of Putin-Connected Oligarch Rotenberg Wins State Anticorruption Tender.”

<sup>128</sup> Unified System of the Grants of the Russian Federation, «ЕДИНАЯ ИНФОРМАЦИОННАЯ СИСТЕМА В СФЕРЕ ЗАКУПОК» (“Official grants of the Russian Federation”).

Furthermore, since in the late 2019, Arkady Rotenberg sold the entire *Stroygazmontazh* to the state-owned *Gazprom* for \$1.18 billion (making over \$700 million in profit), it would be safe to assume that at least some of the future building contracts in Crimea will be given to Gennadi Timchenko's *Stroytransgaz*.<sup>129 130</sup> On the other hand, this buyout could mean that the Kremlin is slowly changing the way on how it handles enormous government-sponsored construction projects. Some have even argued that "Putin is institutionalizing control of the way state funds are spent on mega-projects."<sup>131</sup> Nonetheless, corruption and informal politics are so deeply rooted in the Russian business culture that it is extremely hard to see any drastic changes happening in the near future, especially because Russia is facing a critical power transition in the upcoming years.<sup>132</sup>

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<sup>129</sup> Reuters, "Blacklisted Russian businessman Rotenberg sells gas pipeline firm: spokeswoman."

<sup>130</sup> In 2008, Gazprom sold five construction companies to Rotenberg for \$348 million. Rotenberg combined the companies into *Stroygazmontazh*. Source: "Putin's Cabinet and the Bridge to Crimea."

<sup>131</sup> The Moscow Times, "Russia's Gazprom Buys Put Its Biggest Subcontractor."

<sup>132</sup> Andrea Kendall-Taylor, "Putin Is Following the Game Plan of Other Autocrats Before Him."

## Conclusion

In this thesis, I have analyzed how Russia uses its hydrocarbon resources as a foreign policy tool. As one of the most significant gas and oil producers in the world, Russia has gained enormous political power in many nations. In short, for many years, Russia has been building asymmetrical economic relationships with multiple countries, including countries in the European Union. Many of these countries have become partially or entirely dependent on Russian energy. In other words, they have become victims of the Russian 'energy weapon.' It is true that, financially, Russia profits enormously from hydrocarbon exports, but scholars also agree that for Russia, gaining political power by selling hydrocarbon resources is just as important. Another way of gaining political influence in a foreign country is to offer subsidies on energy exports. This tactic has been used primarily in former Soviet countries, mainly because their economies are rather weak, and they have very little choice under Russia's ever-growing pressure.

This thesis has also argued that corruption, informal politics, and Vladimir Putin's network of close acquaintances are deeply rooted in the contemporary Russian business culture. For example, Russian state-owned energy companies such as *Gazprom*, *Rosneft*, and *Transneft* all have Putin's close allies as board members and therefore the Kremlin is able to directly control virtually all major Russian hydrocarbon exporters. Furthermore, I have argued that no matter what business Russia does, including exporting cheap gas and oil in return for political influence, selling arms in Africa, or building gigantic infrastructural projects in Crimea, Putin's close allies always get their 'fair' share of the pie. Thus, the following question was

asked: "who really benefits from Russia's natural resources - the Russian nation or a selected group of influential businessmen close to the Kremlin?" In order to answer this, a rigorous analysis of Russia's role in Crimea and Africa was conducted.

Due to the fundamental nature of the Russian political system (informal channels, corruption, patron-client relationships, for example), no final answer can be given. However, by process of elimination, a satisfactory conclusion can be drawn. First, it is highly unlikely that the Kremlin would allow any action that would threaten the existence of the Russian citizens, no matter how much money can be made. For example, sending private military contractors for military operations to foreign countries without Moscow's consent, could lead to a serious international crisis, thereby endangering the lives of Russian citizens.

Second, it is reasonable to assume that the Kremlin would not use disproportionate amounts of government funds to *only* enrich Putin's allies. For instance, even though some infrastructural projects in Russia have been significantly more expensive than similar projects in Europe, usually something tangible and utilizable gets built. One of the best examples is the 2014 Sochi Olympics; gigantic contracts were handed out to the construction companies of Putin's acquaintances, but in the end, Russian citizens benefited from enjoying the Olympic Games in their country. Moreover, the infrastructure that was built for the Olympics can be used for other events as well. Another example is the Kerch Strait bridge project, which was very expensive and enriched Putin's allies via construction contracts. This same bridge is used daily by people going in and out of the Crimea. Thus, it is my conclusion that the beneficiaries of Russia's natural riches, on which the entire Russian economy is very dependent, are the aforementioned oligarchs, as well as the Russian nation as a whole. Naturally, one could

question the fairness of this kind of distribution of wealth, but that kind of debate is beyond the scope of this particular research.

## Appendix



Figure 1 Russia's exports to Africa. Source: The Observatory of Economic Complexity

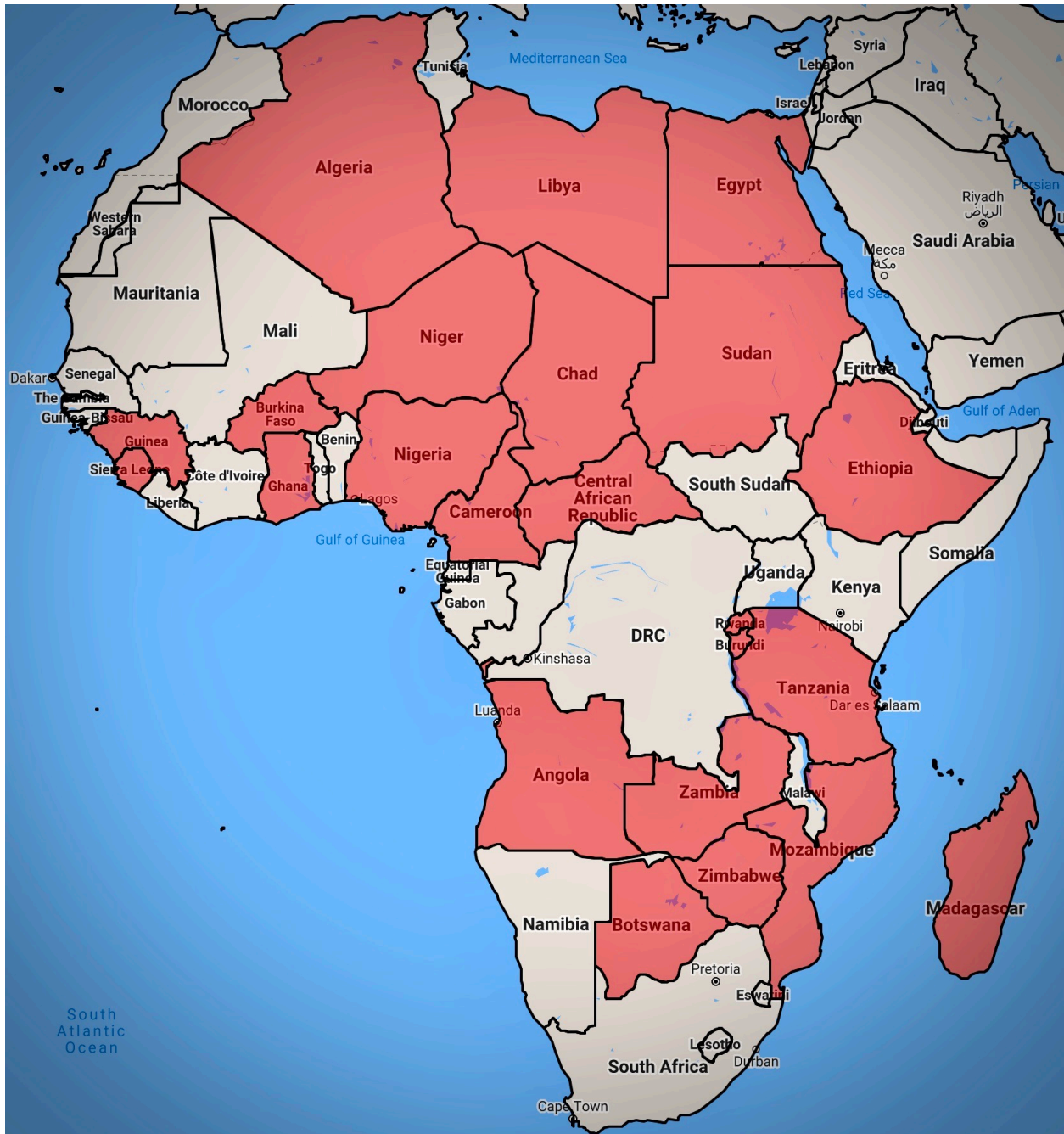


Figure 2 Russia has interest in many African countries (countries in red). Sources: "The Kremlin's Campaign in Africa: Assessment Update" and "Russia is Stepping Up its Military Cooperation in Africa."



<b>Country</b>	<b>Details</b>
Botswana	Peace-keeping and military training.
Burkina Faso	Cooperation on countering terrorism.
Burundi	Cooperation on counterterrorism and joint training of troops.
Cameroon	Military and technical cooperation.
Central African Republic	Training of armed forces.
Chad	Anti-terrorism cooperation and joint training exercises.
Egypt	Deliveries of equipment and weapons for counter-terrorism operations.
Eswatini	Supply of weapons, maintenance and other military assistance
Ethiopia	Training and cooperation on peacekeeping and counterterrorism and anti-piracy efforts.
Gambia	Training of armed forces, deliveries of military equipment.
Ghana	Military and technical cooperation.
Guinea	Cooperation on peacekeeping, counterterrorism, search and rescue at sea.
Mozambique	Deliveries of military equipment, spare parts and component.
Niger	Working meetings of military experts and cooperation on military education.
Rwanda	Supply of weapons and other military equipment.
Sierra Leone	Supply of weapons and other military equipment as well as the provision of other military technical assistance.
Sudan	Develop the Sudanese armed forces.
Tanzania	Arms shipments as well as joint training and research and development.
Zambia	Provisions for the supply of weapons and delivery of spare parts.
Zimbabwe	Supply of weapons and cooperation on producing military products.

*Figure 3 Military cooperation agreements between Russia and African countries since 2015. Source "Russia is Stepping Up its Military Cooperation in Africa."*

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