THE JAMES A. BAKER III
INSTITUTE FOR PUBLIC POLICY
OF RICE UNIVERSITY

THE ENERGY DIMENSION IN RUSSIAN GLOBAL STRATEGY

RUSSIAN ENERGY POLICY IN EAST SIBERIA AND THE FAR EAST

DR. NODARI SIMONIA

DIRECTOR, INSTITUTE OF WORLD ECONOMY AND INTERNATIONAL RELATIONS,
RUSSIAN ACADEMY OF SCIENCE, MOSCOW

PREPARED IN CONJUNCTION WITH AN ENERGY STUDY SPONSORED BY
THE PETROLEUM ENERGY CENTER OF JAPAN
AND
THE JAMES A. BAKER III INSTITUTE FOR PUBLIC POLICY
RICE UNIVERSITY - OCTOBER 2004

These papers were written by a researcher (or researchers) who participated in a Baker Institute research project. Wherever feasible, these papers are reviewed by outside experts before they are released. However, the research and views expressed in these papers are those of the individual researcher(s), and do not necessarily represent the views of the James A. Baker III Institute for Public Policy.

This study was made possible through the generous support of

The Petroleum Energy Center of Japan

Renaissance Capital

Baker Botts L.L.P.

Lehman Brothers

Baker Institute Energy Forum

Anadarko Petroleum
The Honorable Hushang Ansary and Mrs. Ansary
Apache Corporation
Aramco Services
Baker Botts LLP
Baker Hughes
BP
ChevronTexaco
ConocoPhillips
ExxonMobil
Halliburton
Kuwait Petroleum
Marathon Oil Corporation
Mission Resources
Noble Corporation
Petroleum Energy Center of Japan
Qatar Petroleum
Schlumberger
Shell
Shell Exploration & Production Co.
Simmons & Company International
Total E&P USA, Inc.
Wallace S. Wilson

Introduction

East Siberia and the Russian Far East region is the second most important oil and gas province in Russia after West Siberia. However, it still remains a *potential* petroleum frontier. Throughout the 1970s and 1980s, Soviet geologists discovered many substantial oil and gas deposits in the region, but commercial development was not initiated. In a few cases, development activities have begun in Yakutiya and Sakhalin in recent years. Nevertheless, no significant progress has been achieved since Russia's "independence" and transition to market economy, with the exception of development of the "Sakhalin-1" and "Sakhalin-2" projects.

However, the Russian government considers the development of the significant hydrocarbon potential of the region to be essential according to objective criteria. The following factors predetermine geo-economic and geopolitical necessity of developing the energy sector of East Siberia and the Far East:

- During the transition period of Russian independence, economic ties between the European part of Russia and this remote region were in some measure disrupted, threatening Russia's national security in general;
- Problems emerged with energy supplies from other regions of Russia to this area that is rich in its own undeveloped resources;
- Social and economic problems of this backward region were aggravated;
- The region's co-operation (often illegal and damaging for Russia) with the neighboring countries of Northeast Asia grew stronger;
- Its population, scarce as it is, began to migrate to other regions of the country, thus threatening Russia's demographic security;
- Major West Siberian fields are becoming increasingly mature; therefore, this negative trend calls for a timely development of a new petroleum province;
- Accelerating integration processes with the dynamically growing countries of the Asia Pacific Region (APR) is a strategic national economic priority for Russia.

These factors, among others, have been repeatedly highlighted and discussed not only by Russian academics and mass media, but also by local, regional, and federal authorities.

Relevant programs have been adopted, but no real progress has been achieved, with programs remaining largely on paper. What is the reason for this state of affairs?

Despite all its unique characteristics, the region of East Siberia and the Russian Far East is, nevertheless, an integral part of Russian society, and it has suffered from similar influences for its disastrous economic situation as the rest of the country. These influences stem from the peculiar nature of Russian capitalism that began to emerge during Yeltsin's era. It is bureaucratic capitalism in its worst, corrupt and parasitic form. Literature and mass media call it "oligarchic", "criminal", "Kremlin" capitalism, and the like, but, these terms do not uncover the main political and economic essence of this phenomenon. Bureaucratic capitalism emerged in Russia, similar to Indonesia under Sukarno, as a result of the weakness of the state authorities, which allowed the corrupt top bureaucracy to initiate the formation ("cultivation") of oligarchs. Consequently, high-ranking officials and newly fledged "oligarchs" were often one and the same person.

Naturally, the "new Russian" businessmen mainly focused on the sectors of Russia's industry that produced the most valuable export commodities, i.e. oil, gas and other primary industries. The emergence of bureaucratic capital in the energy sector was a particularly corrupt process. Oligarchs acquired state enterprises practically dirt-cheap, and the fictional, symbolic prices they had to pay were even "subsidized" by credits provided by state financial institutions on the eve of contests and auctions. Meanwhile, the parasitism of such businesses, in contrast to chebols created by the South Korean Government, was obvious, first, because they were not creating any new enterprises or industries, but were just "squeezing juices" out of the existing entities, and, second, because the generated profits were not reinvested in Russia, but were channeled to foreign offshores, and were often spent abroad on real estate, sport clubs, and other assets that contributed little to the Russian economy.

During Yeltsin's era, two different stages can be clearly identified. The first period (1992-1998) was quite aptly named – *bespredel*. Literally translated from Russian, the term means "no limits." However, in the peculiar Russian context of that period, the connotation of the word means unrestrained lawlessness, unscrupulousness and corruption. *Bespredel* was manifested in an unlimited usurpation, or takeover, of the most valuable state assets by a small group of "the elite". The second period (1998-2002) is known as the stage of "*peredel*" or *re-distribution* of the acquired assets. It was followed by another stage (2003-2004) when the process of redistribution of assets automatically continued, frequently by using administrative resources, employing state and private law enforcement agencies, applying the mechanism of trumped-up, unjustified bankruptcy, and other similar methods. Nevertheless, its increasingly dominating feature is the re-establishment of the state control over a *part* of illegally acquired assets in the strategic oil and gas sectors and the general strengthening of the state regulation.

All these stages were experienced in East Siberia and the Far East, of course, with regional specific aspects. The regional specific differences that were evident included:

1. In contrast to West Siberia, there was no established oil and gas industry in East Siberia. Therefore, licenses for prospecting and further production of hydrocarbons were the main target for asset-grabbers at the *bespredel* stage. The initiative usually belonged to the local businesses since the top federal officials were completely absorbed by vicious political power struggles, as well as by "cultivation" of oligarchic groups. Neither local authorities nor regional private businesses had the technical expertise and financial means to carry out geological prospecting, exploration and development of the fields they received licenses for. They hoped, however, to obtain the federal government's permission to attract foreign investors for these purposes.

2. In a second stage, top federal officials (ministries) and well-established oligarchic groups finally turned their attention to East Siberia and the Far East and took an active part in the process of re-distribution of licenses and equity of oil and gas companies founded in this region.

3. At the third stage, in 2003-2004, it was the region of East Siberia and the Far East that was chosen by the presidential team as a testing ground for the new state energy strategy. This was the real national strategy, rather than yet another paper document by which we mean a strategy developed by the government long ago. The strategy was officially adopted by Kasyanov's government in March 2003. It can be speculated that perhaps this

region was chosen exactly because the bureaucratic capital of oligarchic groups had not yet managed to become deeply entrenched there, and the timing was right for Russia to make important strategic, geopolitical and geo-economic decisions regarding its policy in APR. The new presidential strategy envisaged certain re-distribution of licenses that were granted long ago but still remained unutilized and transformation of licensing rules, that is, implementation of a stricter policy in the licensing sphere in accordance with the recognized international practices.

We shall use the example of certain key oil and gas projects in East Siberia and the Far East to examine the course of struggle for them among various players, confrontation between the presidential and local government groups, as well as the emergence and early implementation of Russia's new energy strategy in this region.

Fight for Kovykta

On April 6, 1992, the Irkutsk Regional Administration together with a number of enterprises and organizations ("Varieganneftegaz", "Angarsknefteorgsintez", "Irkutskenergo", and the Regional Property Fund) registered "RUSIA Petroleum Ltd." ("RP") to develop Kovykta gas and condensate field and Verkhnechonsk field. "RP" received the license for the development of the fields, but since its own potential was clearly insufficient, "RP" executives requested that the Ministry of Fuel and Energy and the Chairman of the State Property Committee Anatoly Chubais transfer a 10% stake in the company to a foreign investor and provide a complete tax exemption of the project for the first 5 years. Although the federal authorities pledged their complete support to the Irkutsk initiative, no promised Presidential Decree was ever adopted, leading British Petroleum (BP) and Norwegian Statoil to withdraw from the project despite their participation in preparatory works in 1992. This participation included acquisition of geological data at a cost of $6.5 million.[i]

Meanwhile, the Russian government decided to seize the initiative, and in late 1992, the new Prime Minister Victor Chernomyrdin ordered that due consideration be given to a new project aimed at the establishment of a large regional oil company to be created on basis of "RP."[ii] Thus "Siberian Far Eastern Oil Company" ("Sidanko"), controlled by UNEXIM bank and controlling "RP," was founded. However, the development of the field still remained on hold. The project participants were mainly busy re-distributing assets and searching for a foreign investor. Under the circumstances, the regional administration decided to sell its stake (18.6%), but the local parliament prohibited the deal with Sidanko in November 1995. In 1996, East Asia Gas Corporation (affiliated company of Korean Hanbo Group) in the course of another share issue obtained a 27.5% stake from the Irkutsk regional authorities who were ready to sell their block of shares to Hanbo. As a result, Hanbo Group could become the largest shareholder of "RP" (with 46.1%). UNEXIM bank and Sidanko were the other two other major shareholders (25%), with the latter having acquired by that time a 46.1% stake in the Angarsk Petrochemical Company's (APC), one of "RP" founders.

South Korea, however, was playing a double game. It was simultaneously negotiating with Yakutiya, regarding it as a more promising natural gas province; it intended to transport gas by pipeline bypassing the Irkutsk Region. Throughout 1995, the Korean State Oil Corporation carried out a feasibility study on the development of Nepsko-Botuobinsk field in Yakutiya, and it wasn't until December 1995 that Yakutiya agreed to combine its project with the Kovykta project as a joint development to build a pipeline to China and South Korea.
In 1996, China seized the initiative, and RP became a part of an international agreement between Russia and China to build a pipeline from Kovykta.[iii]

In 1997, BP renewed its interest in the Kovykta project by becoming a shareholder of Sidanko. In November of that year, Sidanko and BP established a strategic alliance to develop natural gas from the Kovykta field. Under their agreement, the first 9.2 Bcm of gas produced had to be used for the local needs, with investment for this purpose set at about $700 million. At the same time, a memorandum of understanding was signed during the visit of President Boris Yeltsin's to China, envisaging deliveries of 20 Bcm of natural gas for 30 years. It was agreed to begin preparation of the feasibility study for a pipeline to China. Participation of South Korea was also stipulated; the country was to be represented by KOGAS (Korean National Gas Corporation). In December 1997, five-lateral negotiations took place between Russia (the Ministry of Fuel and Energy and Sidanko), China (Chinese National Corporation, CNOC), Japan (Japanese National Oil Corporation, JNOC), Korea (Kogas), and Mongolia (Oil Administration), which resulted in the signing of a memorandum of understanding on the preparation of the Kovykta project feasibility study. RP was the license-holder for the field development, while Sidanko owned the controlling interest in the company. China was recognized as the main foreign partner. Japan and South Korea were to contribute financing for the project, while Mongolia acted only as a transit country. It was supposed that the field would be developed under Production-Sharing Agreement (PSA) terms.[iv]

However, it can not be said that the process accelerated significantly. Even the convening of a meeting of a newly-formed Russian-Chinese Committee on Energy specially created under the initiative of Russian Prime Minister Yevgeny Primakov in January 1999 was not able to help. During the meeting, a Gazprom representative declared that his corporation would do its best to achieve success of negotiations on construction of a pipeline to China.[v] In fact, however, it turned out to be merely a diplomatic courtesy. Meanwhile, when Sidanko, BP, and Chinese CNPC established a construction consortium, and invited Gazprom to join it, the gas monopoly did not respond. It is noteworthy that progress was not made despite the fact that Prime Minister Primakov discussed the Kovykta project in Davos, Switzerland with BP, which had invested about $30 million in the project to date. Russian Fuel and Energy Minister Sergei Generalov declared that the Russian Government would "in any case implement this project within the framework of the inter-government agreement with China."[vi]

Later that year, after the fall of the Primakov government, Gazprom chief Rem Vyakhirev was more frank in describing his attitude towards the projects in East Siberia and the Far East. He said, in particular, that the situation was not favorable yet for the implementation of the projects aimed at the expansion to Asia, and that Gazprom was in no hurry to build pipelines in that direction.[vii]

Time brought the Kovykta project more problems than it resolved. A key issue, for example, concerned evaluation of the field resources. When the project had begun, it had relied on data of the Soviet preliminary geological prospecting efforts, which estimated that Kovykta resources ranged from 600 to 800 Bcm. Meanwhile, Gazprom, which was not interested in the success of the project, claimed that Kovykta resources were less than 1 Tcm.[viii] This declaration gave the Chinese counterpart grounds for demanding new prospecting to specify the volume of resources.

Another problem for the project was the uncertainty created in 1999 by bankruptcy procedures initiated against Sidanko, which allowed Tyumen Oil Company to win at auction and to establish its control over Chernogorneft, the major oil producing subsidiary of Sidanko. This created a serious conflict between TNK and BP, which had, as mentioned above, acquired an interest in Sidanko in 1997. At BP's urgent request, the U.S. froze a large credit intended for TNK.[ix]

The conflict over the status of Sidanko meant that the China's CNPC had to resolve whom to regard as the main consortium partner if Sidanko went bankrupt. The Chinese faced an undesirable prospect of dealing with BP, though the latter at the moment owned only a 10% stake in RP.

Another problem was created by Gazprom, which unexpectedly offered to China to deliver natural gas from West Siberia (from Yamal peninsula) rather than from East Siberia. China considered this proposal to be an even more challenging task since the length of a West Siberian line would be twice that of the line from 2.5 thousand kilometer Kovykta pipeline. The Gazprom offer coincided with the visit of the Chinese Prime Minister Zhu Rongji to Moscow in February 1999, when the agreement on gas deliveries, namely from Kovykta, was signed among a package of documents on energy co-operation, including a document between RP and CNPC on the preparation of the feasibility study.[x]

Other problems also loomed including Chinese objections to transit via Mongolia, despite the greater profitability of that route for Russia. Finally, serious disagreements emerged regarding gas prices, and complicated tough negotiations on the matter continued for many years. It is no wonder, therefore, that the process of Kovykta development languished for many years among futile negotiations and signing of meaningless memoranda and protocols.

Endless discussions and changes that actually hindered implementation of the project took place between RP and the international consortium partners. During this period, BP was continued to increase its stake in RP. Interest of BP's affiliated company Burovic East Siberia Holdings Limited rose from 22.32% in 1999, to 30.84% in 2001 (also at the expense of South Korean EAGC), making BP the largest RP shareholder.

In summer 2000, TNK also began to increase its stake in RP. This aggressive new minority shareholder began by acquiring shares from the Korean company EAGC and later instituted a lawsuit against Sidanko by contesting the legality of its 12.88% stake of Irkutskenergo. An unresolved conflict festered between TNK and BP, together with Sidanko, regarding ownership shares in Chernogorneft (to be more exact, with Interros Corporation behind the latter). As a result, the parties to the conflict came to a complicated compromise in summer 2001: TNK irrevocably gave back Chernogorneft to Sidanko, obtaining in return its blocking interest (44%). Sidanko sold 5.2% shares it owned in RP to TNK and BP, while Irkutskenergo shares were divided equally between Interros and TNK, and, as the result, the latter considerably strengthened its position in RP. Hence Burovic (BP), Sidanko (Interros), TNK, and the Irkutsk Region Property Fund became the largest RP shareholders for the time being.[xi]

This grand compromise marked a turning point in BP - TNK relations. The old quarrel was forgotten, and both companies began to seek an alliance. Already in 2000, BP and TNK signed a cooperation agreement on the Kovykta project, envisaging, among other things, joint purchase of shares. At a RP Board of Directors meeting held in February 2001, TNK, with BP's tacit consent, pushed through (in spite of Interros' objections) a swap transaction. TNK gave RP a concession (its licenses for two areas adjacent to Kovykta – Khandinskii and Yuzhno-Ust'kutskii) in exchange for 10% of shares. Representative of Interros, Sergei Aleksashenko, who had recently left the Central Bank of Russia to become the first vice-president of Interros, was not admitted to the shareholders meeting held on June 29, where the transaction was approved. Moreover, not a single representative of Interros – one of the largest RP shareholders with a 25% stake – was included in the renewed Board of Directors. The meeting also approved the decision on the additional share issue in favor of TNK. However, as it was impossible just to add two areas belonging to TNK to the Kovykta project since TNK had licenses only for prospecting, but not for development of the fields. Thus, a different scheme had to be created. TNK would form Kovyktaneftegaz Company that would receive a license for the development of both areas, and then transfer 100% of that company's shares to RP, also adding $12 million to the package.[xii]

After BP and TNK strengthened their leading positions and obtained the blocking interests (33% and 29%, respectively), they graciously permitted Aleksashenko to be re-elected to the Board of Directors at the extraordinary shareholders meeting in March 2002. Then, top managers and some shareholders made statements to the effect that now time had come for the project to be launched.[xiii] In the end, an entire decade had been lost because of *bespredel* and *re-distribution* of assets.

While intrigue was taking place inside the corporate board rooms, geopolitical agreements were also unfolding. In early November 2000, RP signed in Beijing a new trilateral agreement with the Chinese CNPC and the Korean firm Kogas on the preparation of a feasibility study in 2002. Total gas output and exports to China and South Korea were to amount to 30-35 Bcm and 10 Bcm, respectively. At South Korea's request, it was envisaged that the feasibility study would also determine the possibility of North Korea's participation in the project.[xiv]

However, despite all these circumstances, during the visit of then Russian Prime Minister Mikhail Kasyanov to Beijing, China continued to raise the same controversial issues. Beijing insisted that it was necessary to continue prospecting efforts to make sure that proven reserves amounted to 1.5 Tcm before discussing investments in the project. Beijing also demanded lower prices and finally managed to force its Russian counterpart give up the idea of using the transit route through Mongolia.[xv]

China and South Korea also had concerns that the Kremlin had appointed Gazprom as coordinator of all gas projects in the country, making it unclear whether business negotiations should be held with RP or Gazprom. The situation was aggravated by the fact that the working groups had not met for almost six months. With lack of clarity about which Russian commercial entity was taking the lead, the Russian Ministry of Energy became the curator of the Kovykta project. In April 2002, a permanent working group was formed.[xvi]

Ironically, the delays in the project took place despite intervention by the Russian Duma. At the end of 2000, after long and heated debates, the State Duma finally passed the Law under which Kovykta was included in the list of projects to be implemented under PSA terms, and the Federation Council approved this Law in January 2001.

In 2002, a new confrontation emerged among RP allies, this time between BP and TNK on the gas pipeline issue. In March 2002, TNK proposed to extend the pipeline to the Russian port of Nakhodka, instead of exporting gas directly to China. The new proposal was backed by the Russian state pipeline monopoly Transneft, which advocated combining the gas pipeline in question with an oil pipeline from Angarsk. The latter oil pipeline was offered as an alternative to a proposed project by private operator YUKOS, which favored a shorter route to Daqing, China, and was angling to complete its alternative with or without the direct participation of Transneft. A direct route to Daqing would be 20 to 30 per cent less expensive than construction of a longer pipeline to Nakhodka, according to industry estimates.

Transneft also supported construction of a liquefied natural gas (LNG) plant. BP had a strong negative reaction to this proposal since the company favored the Chinese option. BP had considerable business interests in China and was concerned not to damage its relationship with Beijing. BP put forward a counterproposal: to join forces with YUKOS and to build a gas pipeline in a joint corridor with the Angarsk-Daqing oil pipeline. It was then, in May 2002, that there was a management change in RP. Valeri Pak, the former Deputy Minister of Natural Resources, was appointed its Director General. It is noteworthy that the then Energy Minister Igor Yusufov, who had, during an unofficial meeting with the Japanese Minister of Economy Takeo Hiranuma in Detroit held on the eve of G-8 summit, discussed the possibility of the Kovykta-Nakhodka-Japan gas pipeline construction, also participated in the discussion.

In early June, a real "heavy-weight", TNK Chairman of the Board Viktor Vekselberg, also weighed in on the subject. Not only did he support the Nakhodka option, but also proposed to found a special company for these purposes, where Gazprom would have a 52% stake.[xvii] Vekselberg's position in the conflict between RP and Gazprom was the one that permitted compromise and was the most realistic. He understood that a direct confrontation with the state corporation would be fraught with danger for RP, given the *etatist* sentiments that were growing stronger inside Russia and among the country's leadership. The company was already receiving warnings from the Kremlin about the possibility that its license for Kovykta would be revoked due to non-compliance with license terms. Understanding that Gazprom would hardly welcome the possibility of breaking its monopoly on the Russian natural gas export, Vekselberg urged his colleagues to find an appropriate niche for Gazprom within the framework of Kovykta project, by separating gas production and processing from its transportation.

RP leadership made repeated proposals to Gazprom to become a shareholder of RP itself under general commercial terms rather than using the so-called "administrative resource," but to no avail. Meanwhile, Vekselberg's influence grew so much that in January 2003 he joined RP Board of Directors. He used this new position to negotiate with Gazprom's top executives, trying, on the one hand, to find a compromise solution, and, on the other hand, to speed up the implementation of Kovykta project to avoid failure of the project.

For its part, Gazprom also tried to seize the initiative. At the end of February 2003, Gazprom chief Alexei Miller visited Seoul to discuss Kogas's proposal to build the China-KPDR-South Korea pipeline to the city of Phentek, where South Korea planned to build an LNG plant.[xviii] However, TNK and BP, which had merged in 2003 giving the new company TNK-BP a 62.89% stake in RP, vehemently opposed the route through North Korea. TNK-BP justified its opposition by raising the high costs and political risks of such a route. South Korea eventually abandoned the idea, preferring the option with the pipeline laid on the bottom of the sea separating China and South Korea.

RP, CNPC, and Kogas signed yet another a feasibility study agreement on Kovykta field development in Moscow on November 14, 2003. According to the document, proven natural gas reserves (in C_1 and C_2 categories) amounted to 2 Tcm, while recoverable reserves were estimated as 1 Tcm. It was supposed that 4 Bcm/yr would be delivered to meet the domestic Russian needs in 2006-2008. Export deliveries to Northeast China would amount to 12 Bcm beginning with 2008, while Northern China would receive 8 Bcm beginning with 2013. South Korea would get 10 Bcm/year after 2008. Project costs were estimated at $17 billion. It was expected that the project would be approved by the governments of the three countries in March 2004, which would provide an opportunity to start commercial activities at the field.[xix] Gazprom responded negatively to the feasibility study. In January 2004, the gas monopoly gave an ultimatum to its rival. During the meeting with Vekselberg, Alexei Miller, chief of Gazprom, declared that Gazprom would not permit to develop the field outside its control. It rejected the feasibility study and argued that the priority should be providing gas to Russian consumers. Instead of export pipeline, Gazprom asserted that it was necessary to build gas and chemical facilities and to export final products to Asian markets as a means to build up the local East Siberian economy.

The declaration made clear that RP would not be able to start the development of the field unless it could reach an agreement with Gazprom. Indeed, the stakes were high since failure to get development off the ground by 2006 would represent a non-fulfillment of its commitments under its license which would thereby expire. Miller also hinted that violations that occurred in 1997 during the re-registration of the license might serve as the grounds for its revocation. At the same time, the Gazprom chief made clear that this position was not merely Gazprom's view, but also the position of the Presidential Administration, the Federal Government, and the regional authorities.

During a subsequent meeting with Boris Govorin, the Governor of the Irkutsk Region, Miller declared that Gazprom planned to start the program of the region gasification *by itself,* having begun with participation in the tender on the Verkhne-Sugdinsk field in spring 2004.[xx] Alexander Ananenkov, Vice Chairman of the Board of Gazprom, continued to attack the feasibility study. However, in March 2004, reports appeared in the press clearly indicating that Gazprom did not yet have a thoroughly elaborated, concrete program of actions in East Siberia and the Far East and that most of its top executives were completely focused on exports to Europe.

The lack of clarity in Gazprom policy was indicated most clearly when Ananenkov addressed a meeting of governors – members of the Siberian Agreement Association in the Altai Region on March 26. He described plans for gas sector development in East Siberia that conflicted with the previous arguments. In particular, he proclaimed that Gazprom intended to incorporate Kovykta in the Unified System of Gas Supply, which means directing some future gas flows to the West, rather than to the East. To this end, a trunk gas pipeline was to be built from Irkutsk Region to Kemerovo. Gazprom wanted to compensate in this way the decline in productivity of the Yamal-Nenetsk Autonomous District and high costs of natural gas production on Yamal and Barents Sea shelf. He argued that gas supplies from Kovykta, Chayanda, Yurubchen-Tokhom and Saiginsk-Paiginsk fields would be much cheaper. As for the Irkutsk Region and other East Siberian regions, Ananenkov recommended gasifying them by using small local fields. It was also said that Gazprom expected to begin gas exports from the region no earlier than in 2014.[xxi] It is noteworthy that according to the license agreement granted to RP by the Government natural gas exports should begin not later than 2008.

At the same time, it was obvious that Gazprom's leaders did not have full consent among themselves. That same March, another Deputy Chairman of the Board, Alexander Ryazanov, declared that Gazprom was ready to join the Kovykta project provided it got a controlling interest and that it was ready to assume responsibility for gas transportation and marketing.
Meanwhile, to avoid the danger that its license could be revoked, RP decided to begin the commercial development of the field at least to provide supplies to local consumers.

Governor Govorin had already raised the possibility of such a scenario in June 2003. The Russian Government supported the domestic initiative by saying it would not insist that gas of Kovykta be sold at prevailing domestic prices. As a result, on March 4, 2004, TNK-BP decided to found East Siberian Gas Company (ESGC) on a parity basis with the regional administration.

On the eve of signing the agreement, Govorin met in Moscow with the Chief of the Russian President's Administration Dmitri Medvedev. The ESGC regional gasification project was self-governing and did not depend on the timing and conditions of the international gas project implementation. In early June, a tender was announced for the construction of the first facilities for the main pipeline from Kovykta to the city of Sayansk, with its further extension to Angarsk and Irkutsk. The implementation of the initial stage would require $600 million. Sberbank (Savings Bank of Russia) agreed to grant investment credit covering approximately 70% of expenses.[xxii]

RP's energetic and practical efforts had an impact on Gazprom leadership. On March 9, a meeting between Miller, BP Vice President Robert Dudley and Vekselberg took place at Gazprom headquarters during which positions of the parties became more closely aligned. As it turned out, Gazprom did not have the support of the entire Russian federal government leadership and needed to show more flexibility. In May 2004, Sergei Oganesyan, who recently had left state-controlled oil firm Rosneft to become the Director of the Federal Energy Agency, announced that Kovykta gas should be delivered to China.

Against this background, contradictions emerged even from within the Gazprom camp. No sooner had Ananenkov once again criticized TNK-BP's project on Kovykta than several hours later Gazprom's official press release announced the successful meeting between Miller and Vekselberg, noting their principle agreement regarding joint activities on the project. According to the press release, Mr.Vekselberg stressed that negotiations on export delivery terms, such as their volume, timing and price formula, ought to be led by OOO Gazexport. Hence, it unequivocally followed that Gazprom had reversed its previous anti-export position and agreed to take control over the export pipeline instead.

Meanwhile, in July 2004, reports surfaced that Alexei Miller and Vladimir Potanin, Chairman of Interros Holding Company, had discussed the prospects for the Kovykta gas field and that

Miller was interested in developing Kovykta in conjunction with other East Siberia and the Far East fields as a means to determine the most rational timing and strategies for the development of the fields.[xxiii] Since Interros had intentions to sell its 25.82% stake in RP, while RP authorities, Mr.Vekselberg, in particular, persistently advised Gazprom to obtain this block of shares, it is possible to assume that the issue was among the main items of the agenda in the discussion between Miller and Potanin.

YUKOS's Expansion in East Siberia

YUKOS's main producing subsidiaries were located in West Siberia, while the territory of East Siberia initially interested Mikhail Khodorkovsky as a routing for petroleum product transit to China. Following the general agreement on oil and oil products deliveries from Russia to China signed at the end of 1998, YUKOS was one of the first companies to take advantage of the emerging opportunities. It delivered 145,000 barrels of oil to China in December 1998. YUKOS utilized a trunk pipeline that ended in Angarsk and then transported the oil by rail to the port of Nakhodka. In early 1999, YUKOS and the "Chinese National Petroleum Corporation" (CNPC) signed an agreement on oil and oil products deliveries in 1999 (about 10,000 barrels per day worth roughly $150 million). They also reached a swap agreement: CNPC would deliver 20,000 barrels of oil per day it produced in Aktubinsk (Kazakhstan) to YUKOS oil refineries, while "Eastern Oil Company" (EOC), a company that is completely controlled by YUKOS, would deliver oil from the Tomsk Region to China. Negotiators also discussed an oil pipeline to Beijing. YUKOS and Transneft, then acting in tandem, offered to work on a feasibility study for the Russian and the Mongolian sections of the pipeline, while CNPC was to deal with the Chinese section. The Chinese also expressed a great interest in an opportunity to invest in oil production at YUKOS fields in the Tomsk Region, as well as at Priobsk field in the Khanty-Mansi Autonomous District.[xxiv]

However, this "friendship" between YUKOS and Transneft did not last long, and, in December 1999, the leadership of the pipeline monopoly made a statement to the effect that it was impermissible to implement a pipeline construction project by a private company without the involvement of the state. However, at that time, YUKOS had supporters both in the Ministry of Foreign Affairs and in the U.S. White House, and on January 20, 2000, Khodorkovsky signed a Memorandum with the Mongolian Ministry of Infrastructure Development on co-operation in energy sphere, and, in particular, in oil products transportation via Mongolia to China. (Though at that time it was already known that Beijing preferred a longer, and less economically attractive, Angarsk-Kharbin route, bypassing Mongolia).[xxv]

In March 2000, within the framework of the meeting of the Russian-Chinese Committee on co-operation in energy sphere, YUKOS signed a series of documents with CNPC and another Chinese state run company Sinopec which was a large importer and oil refiner. According to these documents, the Chinese were committed to buying 400,000 barrels per day starting in 2005, while the volume could increase to 600,000 barrels per day after the oil pipeline reached its design capacity. Overall project costs were estimated at $ 1.7 billion. The protocol also stated that the route via Mongolia remained an option although the Chinese continued to support the Angarsk-Daquing option during the course of negotiations. The Chinese also insisted that prices should be considerably lower than $30 per barrel. YUKOS officials, however, declared that if the route to Daqing was approved, they would sell oil to China on the border at a floor price of $30.

In hindsight, it is clear that the excessive initiative and independence of YUKOS had at this time already begun to worry the Russian Government as during the Committee meeting the Deputy Minister of Fuel and Energy raised questions about the arrangement, declaring that YUKOS did not have even 300,000 barrels per day for export at the moment and noting that everything had to be "in its place so that in China they do not regard oil companies as Russia itself." He also said that the Ministry of Fuel and Energy henceforth had to play the first fiddle in negotiations on oil deliveries to China.[xxvi] (Perhaps, the government still clearly remembered the failure of Irkutskenergo's negotiations on the construction of a power transmission line to China as the result of the interference of RAO UES of Russia in 1997).
Initially, Khodorkovsky was planning to begin export to China from the Priobsk field, but the negotiations, probably, gave him the idea to establish his own production base in East Siberia.

In 2000-2001, YUKOS took its first steps in this direction. It acquired East Siberian Oil Company (ESOC), license-holder for the richest Yurubchen-Tokhom oil and gas field in Evenki District of East Siberia. By spring 2002, YUKOS attained the controlling interest in the company, intending to make its fields the main East Siberian base for exports to China. In June 2002, Khodorkovsky confirmed the information about his negotiations with BP on the joint development of Yurubchen field, and soon he started negotiating the very same matter with the Chinese companies as well.[xxvii] Things were made easier for YUKOS by the fact that Boris Zolotarev, the former Director for Development of YUKOS, became Governor of Evenki District in spring 2001.[xxviii] At the same time, YUKOS raised its stake in another local firm, Eastern Oil Company (EOC) to 90%. EOC worked then in the Yurubchen-Tokhom zone, facilitating a China export scheme.[xxix]

During the same period YUKOS gradually got yet another “springboard” under its control by acquiring a stake in the Angarsk Petrochemical Company (APC), once again planning expansion to Eastern markets. APC was initially part of Sidanko, but was consistently in the red. At the end of 1999, RINKO (Russian Investments Company) acquired 51% of Angarsk. Beginning with May 2000, YUKOS began delivering 10,000 to 12,000 barrels per day of crude to APC refinery (with throughput capacity of 460,000 barrels per day). In spring 2001, when the refinery came under threat of bankruptcy for its debts, Khodorkovsky obtained the controlling interest in RINKO, and that same summer swapped APC shares for YUKOS shares. Later, YUKOS became a 100% owner of the refinery.[xxx]

Yakutiya (Republic of Sakha) was the third large springboard for YUKOS’s aggressive activities in East Siberia. Oligarchic involvement in Yakutiya focused on a local company Sakhaneftegaz, which, together with its affiliates (including Lenaneftegaz) produced roughly 6,000 barrels of oil per day and some 4.1 million cubic feet of natural gas per day solely for the local heating needs. Three main shareholders of Sakhaneftegaz were the Government of Yakutiya (45.8%), the largest Russia’s diamond corporation ALROSA (16.8%), and the republican investment fund Sakhainvest, controlled by the former President of Yakutiya, Mikhail Nikolayev, who, according to mass media, intended to transfer the government stake to Sakhainvest.[xxxi]

However, after the Ministry of Natural Resources put to a tender the largest oil and gas field Talakan, with reserves amounting to 900 million barrels of oil and 1.7 trillion cubic feet of gas, YUKOS, Surgutneftegaz, Rosneft, LUKoil, and TNK got interested. YUKOS appeared to be the obvious leader. It managed to establish close contacts with Sakhaneftegaz and Governor Nikolayev himself. As a result, in April 2001, the Ministry of Natural Resources approved the decision of the tender committee on Talakan to name Sakhaneftegaz as the tender winner, announcing it offered the largest bonus at $501 million.

Sakhaneftegaz was, however, unable to pay the bonus within the appropriate 30 days. YUKOS agreed to provide credit only on the federal part of the bonus ($200.4 million), expecting that local authorities would cover the remainder which represented the share of the Republic. The authorities, however, refused to do pay their share, leaving YUKOS to provide credit on the second part of the bonus as well, though not to the company, but to the government of the Yakutiya Republic. The Yakutiya government demanded approval of its local Parliament, which voted against the deal. Finally, the Ministry of Natural Resources agreed to grant Sakhaneftegaz a temporary license, provided it would pay the bonus in the nearest future. The decision aroused indignation of Surgutneftegaz, the second biggest bidder at the Talakan tender. Surgutneftegaz had offered a much smaller bonus ($61 million).[xxxii]
In early March 2002, after YUKOS's ally Nikolayev's defeat at the regional elections, the new Governor Vyacheslav Shtyrov, who was backed by Moscow, signed a document ordering the return of the Talakan concession to the Fund of the Undistributed Mineral Resources, officially annulling the results of the previous tender.

The deposit was later put out to tender. YUKOS, however, did not intend to give up the fight. A new, supplementary issue of Sakhaneftegaz shares was organized, permitting YUKOS to obtain an interest (25%) of the company. Another 30% was already in the hands of companies affiliated with YUKOS.[xxxiii] The auction on Talakan scheduled for December 2002 never took place following intervention from the Ministry of Economic Development, which insisted that the starting price ($56 million) was too low. (The press ascribed this interference to intrigues of Rosneft, whose Chairman of the Board was Russian Economic and Trade Minister German Gref). As a result, the auction was postponed till March 2003.[xxxiv]

Despite the intervention by the Ministry of Economic Development, YUKOS publicly discussed plans to invest 1.5 billion rubles on the construction of the Talakan-Vitim oil pipeline in Yakutiya, as well as in drilling of wells in Sredne-Viluiskoye and Talakan gas condensate field. Meanwhile, it planned to extract gas on the basis of the Yurubchen-Tockhom zone either for exports to China, or for the GTL process (technology of gas transformation into liquid hydrocarbons – petrol, diesel, etc.).[xxxv] But, due to the ambiguity regarding the results of the struggle between all the antagonists involved, the auction of the Talakan field remained delayed.

The Ministry of Natural Resources granted Sakhaneftegaz's subsidiary AO Lenaneftegaz (that owned a one-year license for the trial development of the field to meet the local needs in fuel) an operating license for oil production but only for one month. On expiration of this period, Lenaneftegaz had to curtail activities at the field on July 23, 2003. The same situation was repeated in September-October; after that, the Ministry of Natural Resources ordered Lenaneftegaz to return the license, and to temporarily close down the field. It was announced that the auction would take place in the second quarter of 2004.[xxxvi]

A statement made by the then Prime Minister Mikhail Kasyanov during his visit to Yakutiya on July 9, 2003 seems quite illuminating in connection with the whole story. He declared that auction on Talakan would take place in autumn that year, followed by another one, on the Chayandinsk field.[xxxvii] In fact it was the first public, though indirect, expression of Kasyanov's negative attitude towards the idea that Gazprom and Rosneft would get to control the oil and gas resources of the region. The state companies insisted on the necessity of a complex development of oil and gas fields in East Siberia and the Far East within the framework of the joint holding, buttressed by Presidential support. Considering Kasyanov's attitudes on East Siberia and the Far East, combined with his "indirect disagreement" with the measures taken against YUKOS and its leaders, Kasyanov's government "pre-term" resignation before 2004 presidential elections becomes more understandable.

Against the background of the struggle against YUKOS that was gaining momentum and Khodorkovsky's arrest on October 25, 2003, the Ministry of Natural Resources granted Surgutneftegaz a short-term operating license, taken away from Lenaneftegaz, for one year or until an official auction could be held. YUKOS's first reaction was that it would participate in the future auction and had no intention to sell Lenneftegaz's equipment and infrastructure. Without this equipment and facilities, Surgutneftegaz would have been unable to maintain production to satisfy even the local needs. That is why Surgutneftegaz stalled in signing the licensing agreement. Instead, it focused on making the Arbitration Court acknowledge its victory at the first auction held in March 2001 and obtaining a permanent license on this basis. Simultaneously, Surgut secured the right to conduct additional survey of sites adjacent to Talakan. All in all, it received a license for three sites for a five-year period. In December, the Yakutsk Arbitration Court made a decision to grant Surgut the right to develop Talakan. The Ministry of Natural Resources and the Government of Yakutiya gave the company a permanent license provided the $61 million bonus is paid.[xxxviii]

After Yakutiya bailiffs seized 50% of Lenaneftegaz in January 2004 to secure the lawsuit of one of its contract organizations, YUKOS agreed to sell its facilities on Talakan to Surgut. Following a change in President Putin's cabinet around the same time, the new Minister of Natural Resources Yuri Trutnev made an attempt to express his disagreement with the Yakutsk Arbitration Court's decision to allow the sale since the state could have obtained an additional 100 million if another auction was held. In the middle of June 2004, however, he stated that the Ministry would not dispute the right of Surgut for Talakan, as the deadline for making an appeal had passed.[xxxix]

Angarsk-Daquing vs. Taishet-Nakhodka: "Tug of War"

Nowadays, it is almost a platitude to say that China faces an acute shortage of foreign oil and is aggressively searching for new sources of supply. But back before 2001, China regarded itself as a potential monopolistic market for East Siberian oil and behaved accordingly, demanding more and more concessions from Russia. YUKOS corporate interests and energetic tactics of its leaders (unfortunately, only on the domestic front) encouraged CNPC that it would easily achieve its goals.

During the Chinese Prime Minister Zhu Rongji's visit to St.Petersburg, the Ministry of Energy, YUKOS, and Transneft signed a general agreement with China on the development of a feasibility study for design and construction of a pipeline from Angarsk to Daqing. It was decided that Transneft, YUKOS and CNPC would split the $30 million bill for the feasibility study. They also agreed that CNPC would invest $700 million for construction of the section of the pipeline inside China, while the Russian side would spend $ 1 billion on its own section. It was planned to complete the survey and the feasibility study by July 2003, with the construction to be finished by 2005. However, after the fact, Transneft announced that the Angarsk-Daqing route would be studied only as an alternative to Angarsk-Nakhodka option, and that the feasibility study for both routes would be prepared simultaneously.[xl] Nevertheless, Prime Minister Zhu had enough grounds to declare afterwards that China would have to get half of its oil and gas import from the North.[xli]

The September 11 tragedy in United States and the further destabilization of the situation in the Middle East radically changed the situation. Japan emerged as a more aggressive player in the potential East Siberian energy market, and a vicious fight began for oil and gas transportation routes from East Siberia. The competition was characterized by larger concessions and better offers to Russia. However, YUKOS, with its excessive independence, introduced a certain discord into the newly emerging situation. It proposed negotiations with CNPC and Sinopec on the joint development of East Siberia and Yakutiya fields. The Chinese, reassured by all these events, offered Sakhaneftegaz funds to pay the bonus for Talakan in exchange for establishing of a joint mining enterprise.[xlii]

At the same time, China, to make its oil pipeline with YUKOS more attractive, agreed to provide credit (in the form of an advanced repayment of its debt to Russia for the construction of a nuclear power station) to build the Russian section of the pipeline. The credit had to amount to no less than 50% of the total volume of investments in the whole project. In addition, China agreed to provide guarantees to purchase 600,000 barrels of crude per day from 2010 to 2030. Meanwhile, YUKOS promised to increase railway deliveries of its oil: from 34,000-36,000 barrels per day in 2002 to 60,000 barrels per day in 2005. To this end, YUKOS acquired 66% of the Mongolian company "East Asia Transit" that serviced railway oil deliveries to China.[xliii]

The Nakhodka route had its advocates inside the Russian government. At the meeting of G-8 energy ministers in Detroit, Igor Yusufov declared that U.S. was the second most important Russian partner in energy co-operation after Europe. Developing this position at an unofficial meeting with his Japanese counterpart, he discussed the possibility of building the oil pipeline to Nakhodka since crude could be exported from this port to the United States in addition to China and other Asian countries. Similarly, Transneft President Semyon Vainshtok confirmed that the feasibility study for the Nakhodka pipeline project would be completed in 2004. In May 2002, Governor of the Primorsk Region Sergei Dar'kin openly supported the Nakhodka route, and in June, Governor of the Khabarovsk Region Viktor Ishyev signed a decree on launching exploration works to opt for the route of the trunk pipeline leading from Angarsk to the coast of the Sea of Japan.[xliv]

In autumn 2002, Japan became proactive. On the eve of the Prime Minister Junichiro Koizumi's visit to Moscow, the Japanese Foreign Minister Ioriko Kavaguti and the Trade Minister Takeo Hiranuma sent a letter to the Russian Government saying that Japan was ready to buy 1 million barrels of crude a day provided the Angarsk-Nakhodka pipeline was built. Moreover, Japan was ready to participate in its construction.[xlv] However, the Japanese initiative culminated in Mr. Koizumi's visit in January 2003, when he confirmed to President Putin Japan's interest in the construction of the pipeline and its readiness grant *untied* credits (up to US $ 5 billion).[xlvi]

On the eve of the Russian Government meeting scheduled for March 13, 2003, where, allegedly, one of pipeline's routes was to be chosen, passions became white-hot. The interested ministries had different positions. The Ministry of Foreign Affairs, believing that there was no 100% certainty of the economic feasibility of Nakhodka route, proposed to accelerate work on the feasibility study of the Chinese option, to approve it and to prepare an appropriate draft law. The Ministry of Natural Resources supported the Nakhodka route, stressing that the project would give the second chance in life to territories along the BAM railway (Baikalo-Amurskaya main line). The Ministry of Economic Development vacillated between the options and demanded additional calculations and substantiation. But it was especially noteworthy that, probably under a strong pressure, Transneft changed its position suddenly and started saying that the Nakhodka project was economically inefficient and that investments would not be recovered.

As the result, on February 7 a "compromise" decision was made at the meeting headed by the Minister of Energy Igor Yusufov to recommend the combination of the two routes into one project, starting with Daqing as it was better developed and more straightforward and eventually extending a pipeline to the coast.[xlvii]

The Chinese government press approved of the "combined" option since in fact such a decision would mean that the Daqing option was chosen as the most immediate project. By contrast, Japan began to worry and sent Mr. Iwao Okamoto, chief of the Agency of Natural Resources and Energy at Japan's Ministry of Economy, Trade and Industry (METI) to Moscow in early March to lobby for the Nakhodka route.[xlviii] The government meeting was held in a very heated atmosphere, but the next day Prime Minister Kasyanov publicly announced that a combined Angarsk-Nakhodka option with a branch to Daqing would be the selected route. The relevant ministries and departments were asked to evaluate its economic efficiency and to specify the routing.[xlix]

Tokyo understood that not everything had been lost yet, and continued its struggle at all levels. It was vigorously supported by the Japanese businesses. On April 16, during negotiations held in Vladivostok between the President of Japan's National Oil Corporation (JNOC) Mr. Yoshiro Komata and Governor Dar'kin, the Japanese delegation expressed willingness to invest more than $1 billion for the construction of the Angarsk-Nakhodka pipeline, oil refinery and marine oil terminal. Mr. Komata also indicated that Japan was ready to participate in prospecting and development of new fields.[l] Japan continued to assert its interests despite a May meeting where President Putin and China's Chairman Hu Jintao confirmed their former agreements, and Putin assured his counterpart that the pipeline to Daqing had top priority.

On May 29, YUKOS and CNPC signed a commercial agreement on China's purchase of 5.13 billion barrels of oil between 2005 and 2030. Khodorkovsky proudly announced to the press that as a result of this deal, his company would get $150 billion, with the state receiving $60 billion out of this amount.[li]

In response, in mid-June, Tokyo sent its former Prime Minister Yosiro Mori to Moscow to discuss the pipeline issue with President Putin. At the end of the month, during Vladivostok negotiations, the Foreign Minister Kawaguchi was already speaking about Japan's readiness to invest $7.5 billion in exploration and development of new fields.[lii]

Diplomatic activities aside, on May 22, the Russian Government adopted a major policy outline "Russia's Energy Strategy for the Period up to 2020." The document did not really clarify the Government's position concerning the Eastern pipeline route option. It only parsimoniously repeated the ideas voiced by Kasyanov on March 14 favoring a Chinese option.[liii] But seeming to contradict this position, President Putin said in Tokyo that June: "The Angarsk-Nakhodka option looks preferable because it allows broad access to markets."[liv] Meanwhile, in the middle of July, during Putin's meeting with Governor Dar'kin, an ardent supporter of Nakhodka option, the President asked the region to finish its study of the pipeline route project by September, giving due regard for Russia's geopolitical influence in the Asia Pacific region.[lv]

During this entire period of diplomatic back and forth, events were simultaneously occurring related to the Russian government's prosecution of YUKOS. In early July, Platon Lebedev, head of MENATEP Group, was arrested. It was the first serious blow struck at YUKOS. After that, the position of YUKOS as the main supporter of the Angarsk-Daqing began to weaken. By late August, the Russian Ministry of Energy asked China to postpone the meeting of the sub-committee on Chinese-Russian co-operation in energy field scheduled for August 27-29 in Moscow. Subsequently, Minister Yusufov announced at an October 12 briefing for foreign journalists: "Two months ago (i.e. approximately *in the middle of August*) we formed a joint Russian-Japanese energy committee, and now I have an official proposal from the Japanese Government to participate in the project in all its aspects." Yusufov said that the Japanese were ready not only to finance the pipeline construction, offering $5 billion, but also to invest an additional $2 billion for additional exploration at East Siberian fields. The Ministry believes that this is exactly the amount needed to bring East Siberia proved reserves to the level of West Siberia reserves.

Terms of this investment is under negotiation, possibly including a joint venture with Japan's state JNOC.[lvi] On September 1, President Putin discussed the oil and gas project with Japanese Prime Minister Koizumi over the phone, and the next day the Ministry of Natural Resources' Committee on Environmental Expertise passed an unfavorable resolution on YUKOS oil pipeline construction project.[lvii] Transneft also reversed its position, putting forward arguments favoring the Nakhodka route. Transneft argued that the route to Nakhodka –while longer than to Daqing-- was closer to East Siberian fields, which, apart from everything else, will guarantee higher value of sites put up for auctions.

Such was the situation on the eve of Kasyanov's visit to Beijing starting on October 22, 2003. The atmosphere during the visit was rather tense, and Kasyanov had to confine himself to general statements about the principal support of Angarsk-Daqing project, while referring to the well-known economic obstacles and promising to increase oil exports by rail. Under the circumstances, YUKOS was left with nothing to do but plan an increase by 2004-2005 from the current 70,000 – 80,000 barrels per day to 110,000 barrels per day, still saying it hoped for a future increase to 300,000 barrels per day. The Russian government promised to provide assistance through reconstruction of railway tracks and introduction of preferential rates.[lviii]

China, naturally, was dissatisfied with these developments and accused Russia of violating intergovernmental agreements. Sergei Tsyplakov, Head of the Trade Representation in China, however, rejected the accusations. He said, in particular, that there were no *intergovernmental* agreements on pipeline construction. "The Chinese side's reference to the agreement signed on September 8, 2001 is not legally correct, as the agreement was concluded between CNPC and YUKOS in Prime Minister's presence, but from the point of view of international law it is not an intergovernmental agreement."[lix]

Despite its serious difficulties, YUKOS, nevertheless, tried to preserve its lock on the Chinese market. In spite of the fact that, according to an apt expression of "Oil and Gas Journal," "YUKOS has shifted its practices from expansion to survival," its leadership announced in January 2004 that they were ready to deliver oil to Nakhodka, providing the pipeline was constructed.[lx]

Meanwhile, on February 2, 2004, YUKOS and CNPC signed in Beijing a letter of intent under which they would close a contract to supply up to 200,000 barrels of oil per day by rail through Zabaikalye and Manchuria to China starting in 2006 for 7 years.[lxi] The following month, YUKOS signed two contracts to supply 130,000 barrels per day and 180,000 barrels of oil per day to China in 2004 and 2005, respectively, having thus confirmed the intention to sign the above mentioned 7 year contract. The agreement showed that despite its dissatisfaction with the Russian government, China could not afford to give up Russian oil given its rising need for imported oil. Rising Chinese oil demand explains why China's Sinopec was still willing to set up a joint venture with YUKOS and LUKOIL.[lxii]

On February 13, Vainshtok of Transneft declared that his company started development of a new export pipeline route from the Irkutsk Region starting in Taishet instead of Angarsk. This new route would pass some 153 kilometers to the north of the Lake Baikal, eliminating all the concerns of the Ministry of Natural Resources' Environmental Committee. Transneft Vice President Sergei Grigoryev announced that Taishet-Nakhodka pipeline would pump 1.6 million barrels of crude per day. The pipeline would be routed 60 kilometers from the Chinese border, and, if approved, would include a branch to China.[lxiii]

At the end of March, Transneft announced that it had reached agreement with the Irkutsk Regional Administration on the issues related to the construction of the 4,130 kilometer long Taishet-Nakhodka pipeline (via Kazachinskoye and Skovorodino) and that it had already obtained consent of other relevant Federation subjects. At the initial stage, crude from the Tomsk Region and Khanty-Mansi Autonomous District (West Siberia) were to be used to fill the pipeline, while oil and gas-rich East Siberian provinces would be connected to it later (the largest among them being Leno-Tungusskaya and Khatango-Viluiskaya areas). The Verkhnechonsk and Talakan fields were also to be linked up to the trunk pipeline.[lxiv]

By May, Transneft's Vainshtok presented a new wrinkle, proposing to build the pipeline in three stages: at the first stage (18-20 months), the initial and final segments of the line were to be constructed simultaneously, while oil would be transported by rail in the middle section. To this end, a one thousand kilometer-long pipeline would be constructed from Taishet to an oil transshipment pier and a terminal would be built at Privoznaya Bay. During the second stage, another 1.1 thousand kilometers would be constructed, also ending with a pier, while at the third stage the remainder of the pipeline would be completed. The plan included finishing preparatory work on project documentation and the feasibility study by the first quarter of 2005, with the first 200,000 barrels of oil per day to be pumped in 2006.[lxv] In June 2004, project investments were estimated for two options. The first option envisaged implementation of the one-stage project (36 months) at estimated costs of $14.464 billion in current dollars ($15.373 billion taking into consideration forecasts of the cost of capital). The second option was based on pipeline construction in four stages (72 months). This would require $14.934 billion (or $16.356 billion taking into consideration the cost of capital). To accelerate engineering and exploration works by the first quarter of 2005, Japan informed Russia that it would allocate $77.6 million for the study.[lxvi]

It seems likely that Russia will be able to implement a pipeline project that goes both to Nakhodka and to China. It is likely to be the option announced by the Kasyanov Government when a formal combination of these two routes was intended as a diplomatic cover for the preferences of YUKOS and China. While implementing Taishet-Nakhodka project with Japan's assistance, it would be possible to simultaneously continue construction of both lines upon reaching the point of the intended branch to Daqing. Under this option, it would be possible to combine advantages of both routes and to neutralize many of their potentially negative aspects.

Fight for Vankor

While YUKOS managed to obtain Evenki Southern trunk pipelines (Yurubchen-Tokhom Zone) relatively easily, the same was not the case with respect to the Northern field of Vankor. Its recoverable reserves amount to 910 million barrels of oil and 2.7 trillion cubic feet of gas and account only for a quarter of the total estimated hydrocarbon reserves of the field.[lxvii]

Since 1993, the license for the field development belonged to OOO Yeniseineft. However, its main shareholder was Anglo-Siberian Oil Co. (ASOC), created by Robert Kennedy and two South Yemen sheiks who owned 41.39% of the company including Mohammed Farid al-Aulaki, former South Yemen's ex- Minister of Foreign Affairs.[lxviii] ASOC had a 59% stake in Yeniseineft while 4% belonged to the Turukhansk Region Property Fund, 22% to Yeniseineftegaz, and another 15% to Yeniseigeofizika (later renamed Khantymansiiskgeofizika). After this initial composition of shares, a series of reallocations began with YUKOS as a key driver, provoking endless scandals and court examinations. At first, East-Siberian Oil Company obtained stakes in Yeniseineftegaz and Yeniseigeofizika. However, YUKOS subsequently acquired 20% of Yeniseineft, giving it some control. Then, top executives of the company sold 21% of Yeniseineftegaz shares and 14% of Yeniseigeofizika shares to Soyzneftegaz, a firm owned by the former Fuel and Energy Minister Yuri Shafranik.

When in April 2003, Shafranik disclosed that he owned 37% of Yeniseineft shares, YUKOS immediately began to dispute the actions of Yeniseineft Director General Eugeni Zhuikov in the Arbitration Court of the Krasnoyarsk Region, accusing him of closing the deal without the Board of Directors' permission.[lxix]

It was then that two new investors appeared on the stage, both having claims on the controlling interest in Yeniseineft. In fact, ASOC for a long time expressed its intent to sell its stake in Yeniseineft at a profit. There were also indications of a deal with Shell, but later the company changed its mind. TotalFinaElf also aspired to acquire a 52% stake. Shafranik was on friendly terms with Arab sheiks at that time and, reportedly, had no objections to cooperation with TotalFinaElf, but the French firm was prevented from taking a share by a lawsuit between YUKOS and Soyuzneftegaz.

Soon, however, another obstacle emerged: Rosneft, having obtained 13% of Yeniseineft, indicated that it had more ambitious goals of attaining a 60% stake. Through its subsidiary Rosneft Investment Ltd., Rosneft offered to ASOC shareholders at the London Stock Exchange to buy their shares at a price that was quite attractive. However, ASOC founders were disinclined to sell to Rosneft. But, Shafranik, who was concerned about vacillations on the part of TotalFinaElf, decided to change strategies and back Rosneft's efforts, leaving ASOC in a difficult position as the deadline of Rosneft's proposal was almost due. In the end, ASOC's Board of Directors was forced to recommend to its shareholders to sell their shares to Rosneft.[lxx]

It is noteworthy that, in spite of its wavering, TotalFinaElf, following the example of certain Russian oligarchs, tried to use "the administrative resource," (i.e. its friendly relations with the Krasnoyarsk Region administration to salvage its play for a piece of the action). The latter promised the French company assistance and notified Yeniseineft that in July it might sanction revocation of the general license if the company did not begin activities at the field according to the terms of that license.

However, the "administrative resource" of Rosneft turned out to be of a higher level that the Krasnoyarsk region because it could pull in federal government leverage. By April 26, Rosneft leadership proclaimed that owners of a 97.5% stake in ASOC had agreed to sell their shares to Rosneft. The transaction was completed by mid-May.[lxxi] Rosneft also won subsequent lawsuits with YUKOS. It filed a suit accusing YUKOS of stealing a 19% stake in Yeniseineftegaz by transferring it to YUKOS's offshore, Maastrade Limited, by forming a Board of Directors exclusively from YUKOS representatives in March 2003. The Arbitration Court of the Krasnoyarsk Region declared this Board illegal. YUKOS's attempts to contest the decision ended on December 15, 2003 with the final victory of Rosneft.[lxxii]

Having eliminated its rivals, Rosneft began drilling at Vankor field in March 2004, with plans to spend $1.2 billion for its development by the end of 2007. The Russian firm continues to seek a partner/investor for the venture, with TotalFinaElf still a possible suitor. However, Rosneft plans are not confined only to Vankor. The company also intends to develop another four nearby fields including the Severo-Vankorskoye field. The joint development of these fields will increase overall production volume to 3.8 million barrels of oil per day. Also, importantly, the fields are adjacent to the fields of "Purneftegaz," the main oil producing subsidiary of Rosneft. Moreover, the company's top executives also plan to initiate a tender for Lodochnoye field, as well as to buy two other fields – Tagulskoye and Suzunskoye - from Slavneft. If these plans materialize, total oil reserves will amount to 2.1 billion barrels, permitting Rosneft to raise production to 280,000-360,000 barrels per day. Rosneft has announced plans to construct some 800 kilometer-long pipeline to the Northern port Dixon. Crude will be transported from it either to the tanker terminal Belokamenka in Murmansk, or directly to Northern Europe.[lxxiii]

East Siberia and the Far East:
Testing Ground for a New Energy Strategy

Oil and gas plays a critical role in Russia to the future of the country. Therefore, in the current situation, which radically differs from the trends observed in the U.S. or the U.K., the state cannot permit Russian capital that is *not yet civilized and law-abiding enough,* especially as represented by the oligarchs, to continue to govern uncontrollably the country’s sovereign property, often to the detriment of its national interests. Since the late 1990s, the urgent need to develop a new state energy strategy was obvious. However, prerequisites for a change began to emerge only after Putin was elected as the President of Russia, Gazprom’s leadership was changed, and the process of putting the Government apparatus into order started.

The “virgin land” of East Siberia and the Far East (i.e. the region where oil oligarchs had not yet managed to get entrenched deeply enough) was chosen as the ground for testing and implementing a new, proactive energy strategy. The Presidential Administration decided not to permit the processes of *bespredel* and *peredel* to gain further strength in this region.
In contrast to his predecessor, President Putin visited Siberia and the Far East frequently. He tried to understand the problems of its social and economic development, held business meetings with scholars from the Siberian branch of Russian Academy of Sciences and the local administrations. The President also backed the initiative of the local authorities to develop a program of social development for Siberia and the Far East with due account for the specifics of the region.[lxxiv] Putin also frequently visited key Asian countries. These diplomatic travels helped him gain insight into the region and better understanding of the necessity to promote Russia’s complete integration into it.

However, it was clear that a traditional approach would lead to inefficiency of a series of state programs followed by hopeless attempts of their implementation by the corrupt local government apparatus. Thus, given this trend, national oil companies were chosen instead as the main instrument for creating the new energy strategy in East Siberia and the Far East.

Of course, one should hold no illusions. The national energy companies have their own narrower corporate interests that also do not always coincide with the national objectives. Gazprom, for instance, is most interested in preserving its monopoly on export pipelines. Rosneft seeks to increase its reserves and to evolve into a large all-Russian corporation. By and large, however, at the current stage of Russia's economic development, these state companies can play a positive role in the formation of the new state energy strategy. This energy strategy is aimed not at the return to the Soviet economic system, as some "experts" and mass media try to present it, but at the modernization and de-criminalization of Russian energy industries through fair and equal cooperation with foreign companies.

While under the former Gazprom leadership its special subsidiary Vostokgazprom was created to develop the Siberian and the Far Eastern resources, it had a subordinate position and its potential was limited because the top executives of Gazprom were completely absorbed by their politics in Western Europe. Although Gazprom's Vostokgaz was granted the status of the head organization in the implementation of the main provisions of the Eastern Program, Gazprom's real presence in the region still remains limited.[lxxv] In recent years, senior management has focused top priority in stabilization of the overall corporation including recovery of assets that were granted to relatives and acquaintances of the former leadership. No large gas fields are being developed in East Siberia and the Far East, and the management of the gas giant was mainly concerned about not permitting other companies, be they Russian or foreign, to break Gazprom's monopoly on gas export.

That is why, when serious negotiations with China on natural gas deliveries from East Siberia started in July 2001, Gazprom secured its appointment as the operator of all Russian-Chinese projects. Proceeding from this decision, Gazprom tried to establish itself as the "coordinator" of RP, which was developing the Kovykta field.[lxxvi] In December 2001, Gazprom's management and Board of Directors adopted the "Program for Developing East Siberian and the Far Eastern Gas Resources and Ensuring a Joint Export Channel to Access Asia Pacific Region (APR) Markets." According to the RF President's decree, Gazprom was appointed as the key company for implementing the state eastern policy in this sphere. In execution of the above decree, Alexei Miller and Konstantin Pulukovsky, the President's Representative in the Far Eastern district, signed a memorandum on cooperation in the development of East Siberian and Far Eastern gas resources and creation of export channels to Asian markets in April 2002. A separate agreement was signed with the Khabarovsk Region authorities.[lxxvii]

However, the most important step towards shaping the new energy strategy in the region was taken by the CEOs of the two state companies, Alexei Miller (Gazprom) and Sergei Bogdanchikov (Rosneft), who sent a letter regarding East Siberia to President Putin on February 17, 2003. Putin forwarded it to Kasyanov for review and proposals. Referring to the international experience, its authors proposed to unite several East Siberian and Yakutiya fields into a joint complex with a single production and social infrastructure to ensure higher efficiency in the development of the region's resources. They also proposed to develop oil and gas resources simultaneously, giving priority to the development of the gas industry to provide for the needs of the region and ensure deliveries to Asian countries. Specifically, it was proposed to launch the complex development of such fields as Chayanda, Kovykta, Talakan, and Sredne-Botuobinskoye.[lxxviii]

Of course, the authors of the letter were well aware that only two out of five fields, i.e. Chayanda and Talakan, were in the list of the not yet distributed mineral resources. Licenses for two other fields (Kovykta and Verkhnechosk) belonged to RP, while a small and relatively obscure company Taas-Yuryakh-neft was the license-holder for Sredne-Botuobinskoye field. However, in early May, the Ministry of Natural Resources informed the executives of Taas-Yuryakh-neft about the early termination of their license.

The two state oil magnates did not propose to confiscate the fields, but only to carry out their complex development, having created a consortium for these purposes. To establish the basis for such scenario, and to "soften up" rivals, on July 31, 2003 Gazprom submitted to the Irkutsk Region Department of Regional Resources an application for the exploration license for two blocks of South-Kovykta field, having thus prepared the grounds for its possible entry into Kovykta project.[lxxix]

Meanwhile, Gazprom and Rosneft were developing another ally. In November 2003, Gazprom leadership invited the president of Surgutneftegaz, Vladimir Bogdanov, together with Sergei Bogdanchikov, to discuss the program of East Siberian development. This initiative appeared to be coordinated at the presidential level since Gazprom's Board of Directors was headed then by Chief of the Presidential Administration Dmitry Medvedev. This choice was not made by accident. Bogdanov was known as a partisan of state control in all spheres, and a person loyal to authorities. He was not involved in political activities, and, being "an indigenous oil industry professional," focused on his business in West Siberia but was planning for a long time to expand beyond its boundaries. Notably, his company was not under investigation for tax "minimization" practices.

On November 21, the three CEOs had a meeting, and a decision was made to coordinate bidding in auctions to acquire licenses for the development of East Siberian fields (to be more precise, they were discussing Talakan and Chayanda fields), and to pursue development of the region under the state, rather than private, control.[lxxx] On December 24, the three companies signed an agreement to establish a consortium for activities in East Siberia and Yakutiya. (According to "Kommersant" newspaper, this question had been settled two days before at a meeting with President Putin). The consortium was not considered a legal entity, and a separate company will be created for each future project "within the territory of mutual interests." A committee consisting of representatives of the three companies will be in charge of general management. "Finansovye Izvestiya" newspaper considers Sergei Bogdanchikov to be the chief ideologist of this consortium.[lxxxi]

By spring 2004, the first rift appeared in the tripartite consortium. When Bogdanov won Talakan, he, quite predictably, refused to share the loot with his partners. Bogdanov's position was logical since he had never signed a separate agreement with the other two companies on this particular project. However, Rosneft and Gazprom insisted on sharing production expenses and generated profits. Bogdanov, in turn, stated that the consortium had been created only for the joint construction of oil field infrastructure.[lxxxii] This contradiction, however, did not prevent the tripartite alliance from beginning an offensive, this time on the Sakhalin front.

In May 2004, another meeting of the three CEOs was held where they came to conclusion that the Sakhalin - Komsomolsk-on-Amur - Khabarovsk pipeline that was under construction for the past two years within the framework of the federal target program must become the basis for the Unified System of Gas Supplies in this part of Russia. According to a press-release released by Gazprom, special consideration was given to the "choice of optimal oil pipelines routes in the East of the country, and the feasibility of their construction in one corridor with trunk gas pipelines." The announcement asserted that Nakhodka should be the hub where pipelines ought to meet.[lxxxiii]

Meanwhile, TNK-BP that was previously quite successfully and flexibly opposing the tough, but not always consistent onslaught of Gazprom, suddenly started negotiations about joining the consortium in May 2004. It is not yet clear whether they intend to join the consortium directly, or to cooperate with it within the framework of its individual projects. Nonetheless, Gazprom officials positively assessed TNK-BP's desire to participate in the consortium, having proclaimed that it would permit integrating financial resources and ensuring complex development of the field. Talakan was mentioned as an example of the field that was not suitable for development separately from other projects.[lxxxiv]

Conclusions

The analysis of the recent history of oil and gas development in East Siberia and the Far East leads to the following conclusions:

1. East Siberia and the Far East is the region where the new energy strategy is getting a trial run. The change of strategy has led to a complicated, intense and changing confrontation that has resulted in a change of leaders within the oil and gas sector. The alliance of Rosneft, Gazprom, and Surgutneftegaz has grabbed the initiative from previous resource development leaders YUKOS and Sibneft. The new favorites appear to be in the lead, though still mainly in the form of public statements, of the complex exploration and development of the East Siberian and Far East oil and gas sector on the regional level.

2. There is an emerging trend of a new balance of power between the state and private oil businesses, with increasing state control and regulation in this strategically important industry aimed to safeguard not only the country's economic development, but its stability and security as well. Separate factors and elements of the process initially formed what seemed like fragmentary policies, but in the longer run, a coherent picture of the new state policy will become apparent. The first bell heralding new trends sounded at the meeting between President Putin and representatives of the Russian Union of Industrialists and Entrepreneurs held in February 2003 when Mikhail Khodorkovsky complained about Rosneft's acquisition of Northern Oil Company. Putin's reaction was tough: "It is a state company that needs to increase its insufficient reserves," he said, and added that "other oil companies" have excessive reserves, while "we still have to

investigate" how they obtained them.[lxxxv] In February 2003, Putin approved the above-mentioned joint Rosneft and Gazprom strategy letter concerning the complex development of the oil and gas potential of East Siberia and the Far East. This approval led to the tripartite alliance's struggle for control of resources in the region, including Rosneft's acquisition of Vankor, Surgutneftegaz for Talakan, and Gazprom for control over gas exports from Kovykta. Finally, there was quite a symbolic appointment ("elections") on July 27, 2004 of the Deputy Chief of the Presidential Administration Igor Sechin as Chairman of Rosneft's Board of Directors. It is noteworthy that a couple of months before that people close to Sechin said that "the state also can be an efficient owner, and the question is in the quality of management."[lxxxvi] Hence, it is appropriate to speak about the Presidential Administration's intention to transform Rosneft into an effectively working "model" corporation that brings adequate revenues to the state budget such as seen in Norway. Its very existence will permit the state to counteract more competently excessive demands and claims of private oil corporations and to control their activity more efficiently, including in the sphere of "tax minimization."

3. Putting the fate of YUKOS's aside, the new energy sector strategy does not mean that the Russian state has embarked upon nationalization of the oil sector. Such nationalization would be practically impossible today. Some widely critical public analysis argues that the new reorganization of the oil and gas industry is nothing more than *re-distribution ("peredel")* of assets between the "old oligarchs" and the new "Piterskie" (from St.Petersburg) tycoons. However, it would be more correct to speak about the strengthening state interference in the oil and gas business. President Putin said soon after his first election as the RF President, during the very first meeting with the "oligarchs" that we all know how you obtained your assets and that a line must be drawn. He added that businessmen should mind your business, invest in it, and pay taxes.[lxxxvii] But quickly Putin learned that he was in the role of the cook from a well-known Russian fable by Krylov who, instead of taking from the cat the meat it stole, began to shame and exhort the animal. It was then that he came to the conclusion that in the contemporary Russia, especially since the "historically immature" oil barons are not sufficiently *law-abiding*, he had to ensure their *obedience to the state,* by means that included firm administrative actions. Of course, it is not very democratic, but at least such actions have been effective.

4. The current Russian Government, in contrast to the government of Kasyanov, immediately sent the signal that Russia has bid farewell to Yeltsin's epoch with its *bespredel* and *peredel*. It will never again give its consent to the decisions that result in the unilateral concessions damaging the national interests. From now on, Russia will act in the oil and gas sector in the spirit of the prevailing international practice. As it was delicately put by the Minister of Industry and Energy Viktor Khristenko at his meeting with the top executives of ChevronTexaco, "Illusions of the wild 90s ought to be finally forgotten, and work should go on according to the rules."[lxxxviii]

5. The federal government intends to assert its full control over regional resource development. In fact, when Yuri Trutnev's appointment as the Minister of Natural Resources was discussed with him at the Kremlin, he was given the task of eradicating corruption in the development of mineral resources.[lxxxix] Nowadays the Natural Resources ministry is successfully working on the draft of the new law "On Mineral Resources." The new law will promote auctions as a mechanism for granting licenses instead of the corrupt practice of holding investment contests. It will officially establish the federal ownership over mineral resources, thus eliminating delays and blackmail of regional authorities and will also determine the maximum size of deposits granted to subsurface users. Licenses will stipulate the timeframe for activities, such as prospecting, beginning of pilot and commercial production, etc. All this will allow the elimination of oil companies' tricky practice of accumulating reserves "for a rainy day" and of increasing reserves to production ratios and their own capitalization, which resulted in serious damages to the economic interests of the country.[xc]

6. Threatening forecasts of different politicians and experts that are frequently appearing in Russian and Western mass media that changes in the Russian President's policy, and especially the lawsuit against the top executives of YUKOS, would inevitably lead to the downturn of investments will prove to be wrong. Perhaps, managers of oil and gas corporations turned out to be more perspicacious and confident. At the height of the trial against YUKOS, companies stepped up, instead of cutting down, their investment activities. It is sufficient to mention the particularly impressive examples for only one month, July 2004. Early in the month, American firm ChevronTexaco disclosed its intention to invest $5-10 billion in Russia's fuel and energy complex; several days after that, Gazprom and the largest European concern, German E.O.N, signed a memorandum

that envisaged joint projects of gas production and its transportation to Europe and also of power generation and distribution. On July 18-19, U.S.-based ExxonMobil visited the Tyumen Region and the Khanty-Mansi Autonomous District to consider investments in prospecting and production of hydrocarbon resources and processing of associated gas. On July 22, American firm ConocoPhillips, together with Lukoil's Vagit Alekperov, discussed with President Putin issues of cooperation in energy sphere in Sochi, and, in particular, ConocoPhillips' participation in an auction to sell the 7.59% state stake in LUKOIL.[xci]

All this demonstrates that Russia's energy sector integration into the international world energy market is irrevocably moving forward despite all the "thorns" of Yeltsin's inheritance.

Notes

[i] *Kommersant-Daily*, November 25 and 28, December 8, 1992. Foreign investors were also frightened off by the stated goals of Kovykta project: to provide the regional petrochemical industry with more economic raw materials, and Irkutsk Region with ecologically cleaner fuel. Gas export to North-Eastern Asia was ranked as the third priority.
[ii] *Kommersant-Daily*, January 22, 1993.
[iii] *Segodnya*, February 23, July 23, and November 16, 1996.
[iv] *Segodnya*, December 26, 1997*; Izvestia*, December 27, 1997.
[v] *Finansovye Izvestia*, January 20, 1999.
[vi] *Segodnya*, February 2, 1999.
[vii] *Vedomosty*, October 8, 1999.
[viii] *Segodnya*, February 13, 1999. In summer 2000, BP Chief Executive Officer Howard Mason expressed his opinion that additional prospecting of Kovykta reserves is going on successfully, and that for the time being they were estimated at 1.4Tcm. (NG. Politeconomia, June 20, 2000).
[ix] *Petroleum Economist*, December 2002, p.4. A compromise that paved the way to further close cooperation between BP and TNK was reached only after the latter agreed to return Chernogorneft to Sidanko in exchange for TNK participation in this company.
[x] *Segodnya*, February 26, 1999; *Izvestya*, February 27, 1999. Incidentally, a rift occurred in the corporation itself regarding this proposal of "Gazprom". Its opponents proposed, nevertheless, to participate in Kovykta project. in June 2004.
[xi] *Vedomosty*, September 24, 1999, November 4 and December 19, 2000, August 2, 2001; *Nezavisimaya Gazeta*, September 9, 2000; *Kommersant*, August 25, 2001; *Vremya Novostei*, August 3, 2001.
[xii] *Vedomosty*, February 27 and September 3, 2001 *Kommersant*, August 20, 2001. Perhaps that and subsequent failures of Sergei Aleksashenko acting as "Interros" representative in "RP" in many respects explain the fact that the corporation refused to extend the contract with him. (*Vedomosty*, July 1, 2004). As the general result of the transaction, President of "Interros" Vladimir Potanin practically sold Sidanko for US $ 1.3 bln., although he had acquired it once for US$350 mln. And it happened despite the fact that long before the event Sidanko lost Kondpetroleum for debts, while APC sold RINKO to YUKOS, having transferred APC assets in "RP" to friendly offshores (*Vedomosty*, September 3, 2001).
[xiii] *Vedomosty*, January 29, 2002; *Izvestia*, March 29, 2002.
[xiv] *Nezavisimaya Gazeta*, September 9, 2000; *Vedomosty*, November 3, 2000.
[xv] *Vedomosty*, November 4, 2000. As a result of the additional prospecting, by April 2002 Kovykta reserves were already estimated at 1.9Tcm of natural gas, 90 mln. tons of condensate, and 2.3 Bcm of helium. (*Vremya Novostei*, April 18, 2002).
[xvi] *Izvestia* and *Vremya Novostei*, April 18, 2002.
[xvii] *Vedomosty*, March 15, and May 29, 2002; *Vremya Novostei*, May 7, 2002; *Izvestia*, July 4, 2002; *Finansovye Izvestia*, May 21, 2003.
[xviii] *Kommersant* February 27, 2003.

[xix] *Vremya Novostei*, October 28, 2003; *Financial Times* , November 11, 2003; *Kommersant*, November 13, 2003.
[xx] *Vedomosty*, *Vremya Novostei*, *Kommersant*, January 30, 2004. In February, Miller and Govorin signed a 5-year framework agreement on the gasification of Irkutsk Region. (*Kommersant*, February 11, 2004).
[xxi] *Kommersant*, March 2 and 27, 2004.
[xxii] *Vedomosty*, June 25 and 27, 2003; *Kommersant*, March 4, 2004; *Vremya Novostei*, March 5 and June 3, 2004.
[xxiii] *Vremya Novostei* and *Kommersant*, May 17 and June 4, 2004; *Kommersant*, March 10, 2004; *Vedomosty* and *Vremya Novostei*, July 22, 2004. The new RF Government also found a compromise solution for the problem with revocation of the license. The Ministry of Natural Resources decided to sign an additional agreement with RP on Kovykta and Verkhnechonsk fields, where the intermediate timeframe and volume of commercial oil and gas output would be determined. (*Vedomosty* and *Vremya Novostei*, July 21, 2004).
[xxiv] *Segodnya*, January 27 and September 9, 1999; *Finansovye Izvestiia*, February 24, 1999; *Vedomosty*, December 2, 1999.
[xxv] *Izvestia*, January 21, 2000.
[xxvi] *Segodnya*, March 23, 2000; *Vedomosty*, March 24, 2000. Nevertheless, during the Prime Minister Kasyanov's visit to Peking in early November of 2000, the intention to build the Angarsk-Daquing oil pipeline was confirmed. At that time, its cost was estimated as $2 billion. (*Segodnya*, November 3, 2000).
[xxvii] *Izvestia*, June 11, 2002; *Vedomosty*, August 14, 2002.
[xxviii] *Mirovaya Energeticheskaya Politika*, No.3, March 2003, p.26.
[xxix] *Izvestia*, June 11, 2002.
[xxx] *Vedomosty*, March 29 and August 7, 2001; *Kommersant*, March 4, 2003.
[xxxi] *Vedomosty*, December 3, 2001.
[xxxii] *Nezavisimaya Gazeta*, April 18, 2002; *Vedomosty*, August 21; *Vremya Novostei*, December 3, 2001.
[xxxiii] *Vedomosty*, January 14 and March 4, 2002; *Vremya Novostei*, February 4, April 8, and May 17, 2002; *Izvestia*, June 11, 2002.
[xxxiv] *Profil*, No.1, January 12, 2003, p.36; *Vremya Novostei*, February 4, 2003. The Ministries in Moscow merely ignored the fact that in January 2003 Surgutneftegaz won in the Yakutsk Arbitration Court the case against the Ministry of Natural Resources in connection with the revision of the 2002 contest results.
[xxxv] *Finansovye Izvestia*, April 15 and October 9, 2003.
[xxxvi] *Vedomosty*, August 1 and 26, September 5 and 9, October 27, 2003*;* Vremya Novostei, *October 21, 2003.*
[xxxvii] *Vremya Novostei*, July 10, 2003. It's interesting that one month later the Minister of Finance Kudrin practically repudiated the timing announced by the Prime Minister, and said that licenses for the development of Talakan and Chayanda would not be sold in 2003. (*Vremya Novostei*, August 26, 2003).
[xxxviii] *Vedomosty*, November 3 and 20, 2003, January 13, 2004; *Vremya Novostei*, November 26 and 27, 2003; *Finansovye Izvestia*, November 27, 2003.
[xxxix] *Vedomosty*, November 3 and 20, 2003, January 13, 2004; *Vremya Novostei*, November 26 and 27, 2003; *Finansovye Izvestia*, November 27, 2003.
[xl] *Oil and Gas Journal*, April 8, 2002, p.9; *Kommersant*, September 8, 2001; *Vedomosty*, September 10, 2001; *Vremya Novostei*, September 11, 2001.
[xli] *Mirovaya Energeticheskaya Politika*, No.1, March 2002, p.71.
[xlii] *Kommersant*, *Izvestia* and *Vedomosti*, July 16, 2002.
[xliii] *Kommersant*, July 26, 2002; *Vestu*, August 8, 2002.
[xliv] *Expert*, No.18, May 13, 2002, p.30; *Vremya Novostei*, May 29 and June 27, 2002.
[xlv] *Vremya Novostei*, January 10, 2003.
[xlvi] *Kommersant*, January 11, 2003; *Vedomosty*, January 13, 2003.
[xlvii] *Izvestia*, February 28, 2003; *Kommersant*, February 25; *Vedomosty*, March 13 and April 11, 2003; *Vremya Novostei*, February 10, 2003.
[xlviii] *Kommersant*, March 4 and July 9, 2003; *Izvestia*, March 6, 2003. That year Mr.Okamoto visited Moscow at least 5 times.
[xlix] *Vremya Novostei*, March 14 and 17, 2003. Later, at the end of April, Kasyanov was more definite regarding the issue: "The matter of building the oil pipeline branch to Nakhodka will be resolved as soon as the question of the volume of oil resources sufficient to fill this pipeline is clarified." He also added that the pipeline issue would be discussed *only after* resources will be guaranteed for the Angarsk-Daquing route. This statement was preceded by the joint address of Transneft President Vainshtok and Khodorkovsky to the Government with a request to accelerate the approval of the feasibility study on the Angarsk-Daquing project. (*Vedomosty*, April 30, 2003).
[l] *Kommersant* and *Vedomosty*, April 17, 2003; *Oil and Gas Journal*, April 28, 2003, p.8.
[li] *Vedomosty*, June 3, 2003.
[lii] *Kommersant*, June 17 and 30, 2003.

[liii] *"Energeticheskaya Strategiya Rossii na period do 2002 goda" (Russia's Energy Strategy up to 2002),* M., September 2003, p. 70.
[liv] *Oil and Gas Journal*, July 7, 2003, p. 9.
[lv] *Profil*, No.29, August 11, 2003, p.84.
[lvi] *Vremya Novostei* and *Kommersant*, August 26, 2003; *Finansovaya Gazeta*, October 13, 2003.
[lvii] *Vremya Novostei*, September 2 and 3, 2003.
[lviii] *Finansovye Izvestia*, September 25, 2003; *Vedomosty*, September 17 and 24, 2003.
[lix] *Finansovye Izvestia*, November 6, 2003.
[lx] *Oil and Gas Journal*, January 26, 2004, p.7.
[lxi] *Kommersant*, February 8, 2004.
[lxii] *Vremya Novostei*, April 1, 2004.
[lxiii] *Kommersant*, February 16, 2004; *Vremya Novostei*, February 25, 2004.
[lxiv] *Vremya Novostei*, April 1, 2004.
[lxv] *Profil*, No.24, June 28, 2004, p.38; *Kommersant*, May 24, 2004.
[lxvi] *Vremya Novostei, July 13 and 20, 2004.*
[lxvii] *Vedomosty*, February 12, 2003; *Vremya Novostei*, April 7, 2003.
[lxviii] *Vedomosty*, February 23. Beside participation in Yeniseineft ASOC owned 100% of Taimyrnef" shares, the latter possessing the license for Severo-Angarskoye field.
[lxix] *Vremya Novostei*, April 7, 2003.
[lxx] *Kommersant* and *Vremya Novostei*, April 7, 2003; *Expert*, No.14, April 14, 2003, p.22; *Izvestia*, April 21, 2003.
[lxxi] *Vedomosty*, April 23 and May 13, 2003; *Kommersant*, April 29, 2003.
[lxxii] *Vedomosty*, July 9 and 11; *Finansovye Izvestia*, December 30, 2003.
[lxxiii] *Vedomosty*, June 11, 2003 and March 15, 2004; *Vremya Novostei*, June 11, 2003; *Kommersant*, March 23 and June 24, 2004.
[lxxiv] Under Yeltsin, the government was strongly focused on Europe and ignored the real problems of the region. At best, another Program was adopted, which invariably remained on paper. In the mid-90s, I reported twice at the Security Council Scientific Board, basing on research of a group of scholars from three RAS institutes, about the necessity of adopting a special approach to the region, and resolving the problem of Russia's integration into APR. Both times, Mr. Urinson, the then deputy Prime Minister, and Minister of Economy, was my main opponent. His primitive and dogmatic approach invariably boiled down to one and the same point: Russia has 89 subjects of Federation, and we should use identical approach to all of them. It should be noted that Kasyanov's government also stubbornly adhered to the traditions of ignoring Siberia and the Far East, and insisted on trivializing the Long-Term Program of Siberia's Development that was prepared by the Siberian branch of RAS, and supported by President Putin. See, for example, the article "Gref's Department Doesn't Like Siberia" in "Nezavisimaya Gazeta", February 6, 2002.
[lxxv] *Nezavisimaya Gazeta,* December 19, 2001. Gazprom has licenses for exploration and development of hydrocarbons on Sobino-Paiginsk oil and gas condensate field, Amorinsk and Beryambirsk sites, and a number of smaller fields. (*Vedomosty*, November 26, 2003).
[lxxvi] *Vremya Novostei*, August 20, 2001; *Profil*, No.21, June 7, 2004, p.26.
[lxxvii] *Nezavisimaya Gazeta*, December 19, 2001; *Vremya Novostei*, April 24, 2002.
[lxxviii] *Kommersant*, March 13, 2003. It is noteworthy that though the Government during its March 13 meeting reviewed the complex East Siberia and Far East development program, no specific decision on the letter and President's instruction was made. Instead, the Ministry of Natural Resources was instructed to work out the program of East Siberia's development *by the end of the year*, and to announce terms for selling licenses, so that the contest could be held six months after that. (*Vremya Novostei*, May 14, 2003).
[lxxix] *Kommersant*, August 4, 2003.
[lxxx] *Petroleum Economist*, January 2004, p.29; *Kommersant*, November 22 and 26, 2003; *Vremya Novostei*, November 26, 2003.
[lxxxi] *Kommersant*, December 25, 2003; *Finansovye Izvestia*, December 30, 2003.
[lxxxii] *Vremya Novostei*, March 30, 2004. However, not only Bogdanov, but even Bogdanchikov acted very independently at that time. He held negotiations and reached a principal agreement with owners of "Slavneft", i.e. TNK-BP and "Sibneft" on buying Tagulsky and Suzunsky fields in Krasnoyarsk Region from them. (*Vedomosty*, March 22, 2004).
[lxxxiii] *Vremya Novostei* and *Kommersant*, May 17, 2004.
[lxxxiv] *Kommersant*, May 21, 2004; *Vremya Novostei*, May 28, 2004.
[lxxxv] *Vremya Novostei*, July 28, 2004.
[lxxxvi] *Izvestia*, July 28, 2004.
[lxxxvii] Simonia, Nodari, "Pecularities of Corruption in Russia and the Challenges Involved," *Connections The Quarterly Journal* Vol. 1, A-2, April 2002. p. 25-27

[lxxxviii] *Vremya Novostei*, July 6, 2004.
[lxxxix] *Vedomosty*, April 1, 2004.
[xc] *Kommersant*, July 27, 2004; *Profil*, No.26, July 12, 2004, pp.30-33; *Nezavisimaya Gazeta*, July 28, 2004.
[xci] *Vedomosty*, July 9, 2004; *Vremya Novostei*, July 6 and 30, 2004; *Kommersant*, July 20 and 23, 2004.