The Changing Geopolitics of Energy in Russia and the Former Soviet Union

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The Changing Geopolitics of Energy in Russia and the Former Soviet Union

I. Energy policy and sector developments in former USSR countries

- Energy strength of USSR
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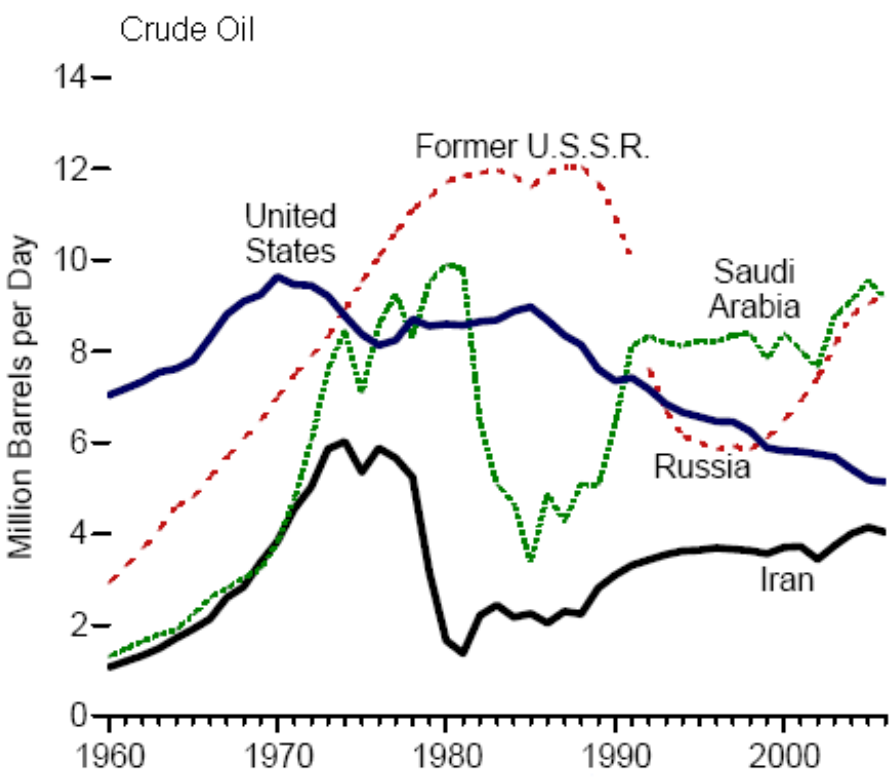
Energy strength of USSR



Source: US DOE, Energy Information Administration
Annual Energy Review 2006

Conventional Energy Production			
Energy Source	USSR 1988	USA 1988	World 2010
Oil (million barrels per day, MBD)	12.5 MBD	9.7 MBD	85 MBD
Natural Gas (trillions of cubic feet per annum, TCFA)	27 TCFA	17 TCFA	137 TCFA
Coal (million tons per annum, MTA)	850 MTA	950 MTA	7240 MTA
Hydropower (gigawatts of installed capacity, GW)	64 GW	74GW	777 GW
Nuclear (gigawatts of installed capacity GW)	20 GW	100 GW	366 GW

Source: D.Reynolds (2011) "Peak oil and the Fall of the Soviet Union"
http://www.theoildrum.com/pdf/theoildrum_7878.pdf

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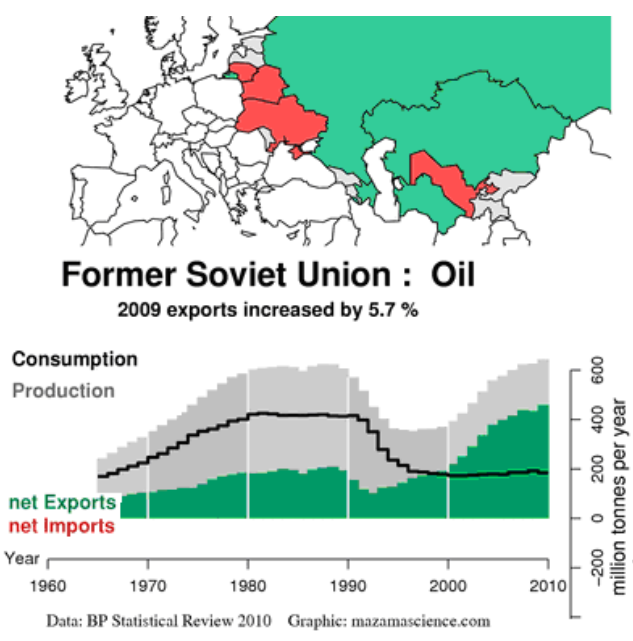

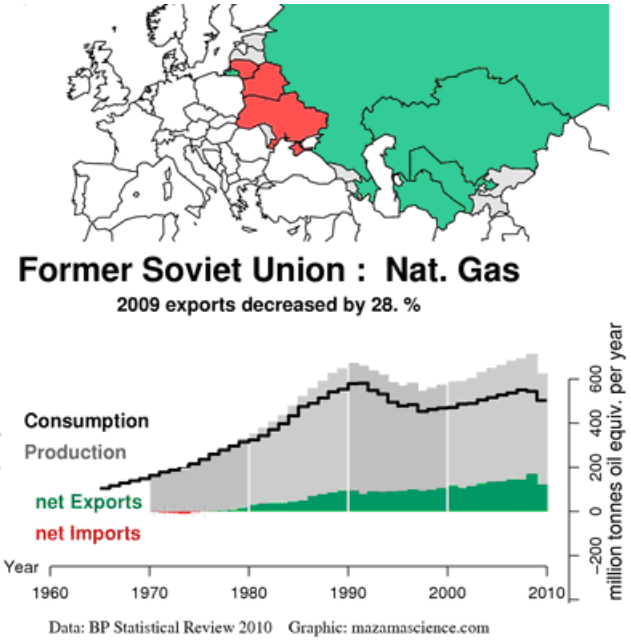

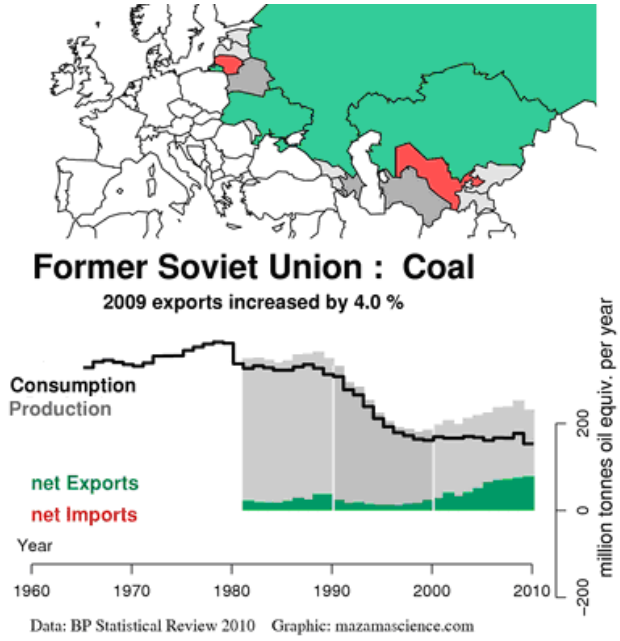

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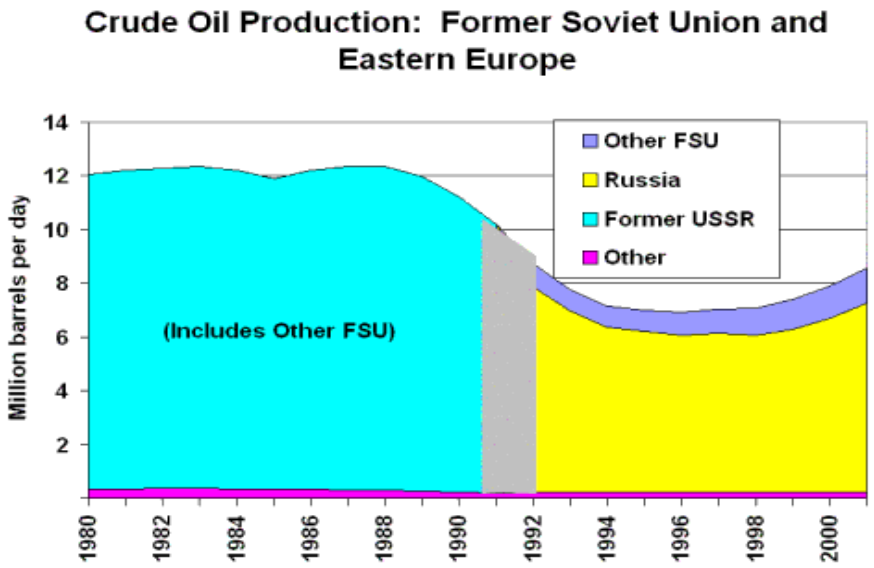
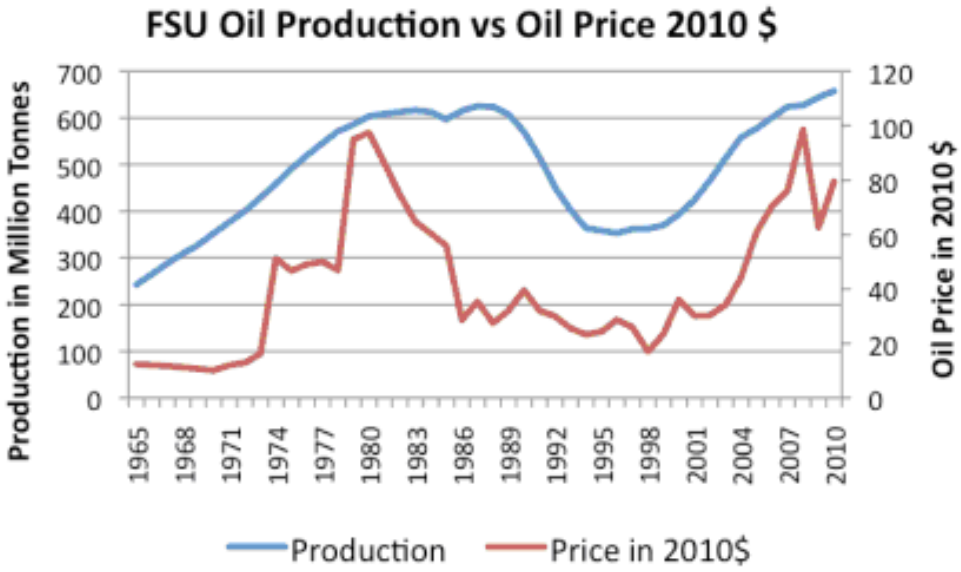


Source: EIA.
http://205.254.135.7/pub/oil_gas/petroleum/analysis_publications/oil_market_basics/sup_image_worldprod.htm



Source: BP data.

http://peakoil.com/production/fall-of-the-soviet-union-implications-for-today/

Energy policy and pipelines development in former USSR countries

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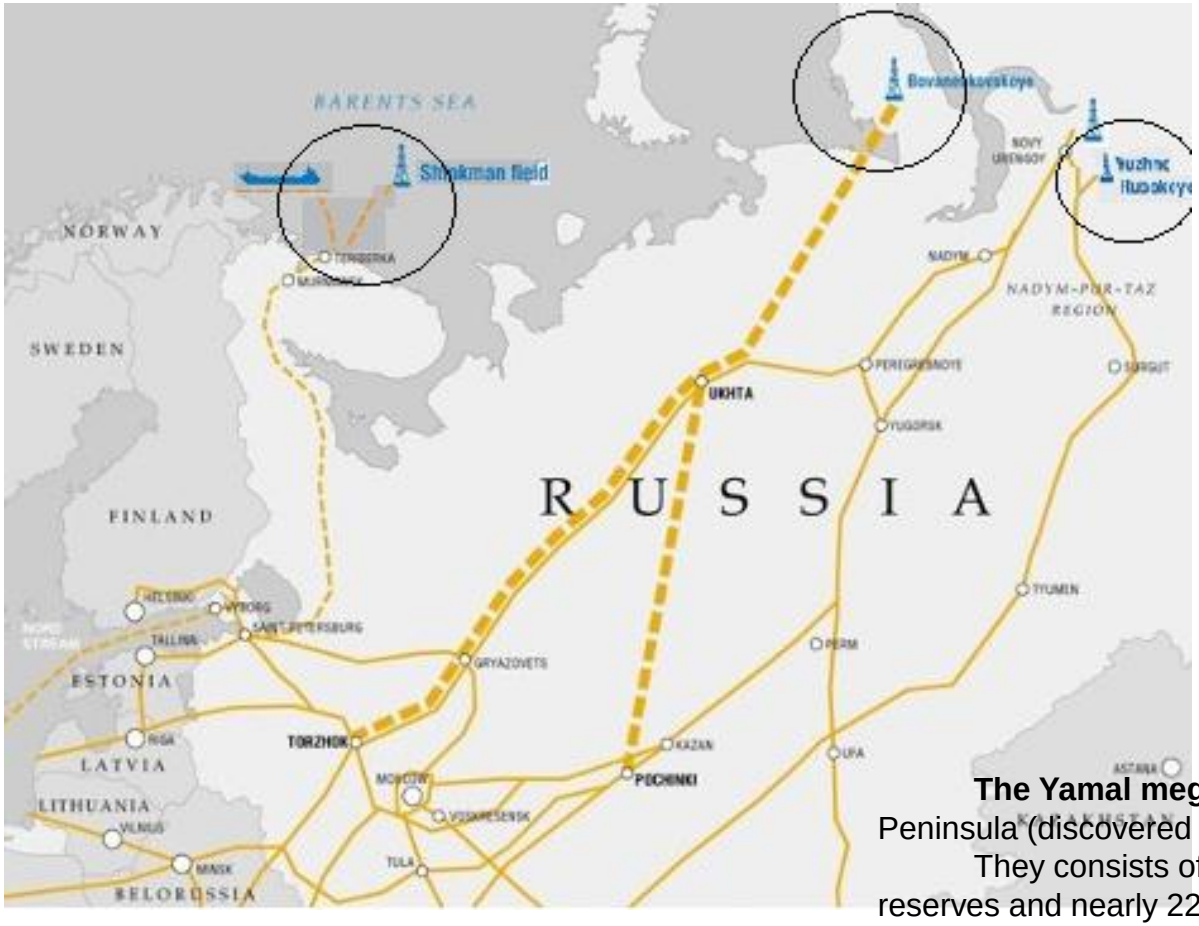

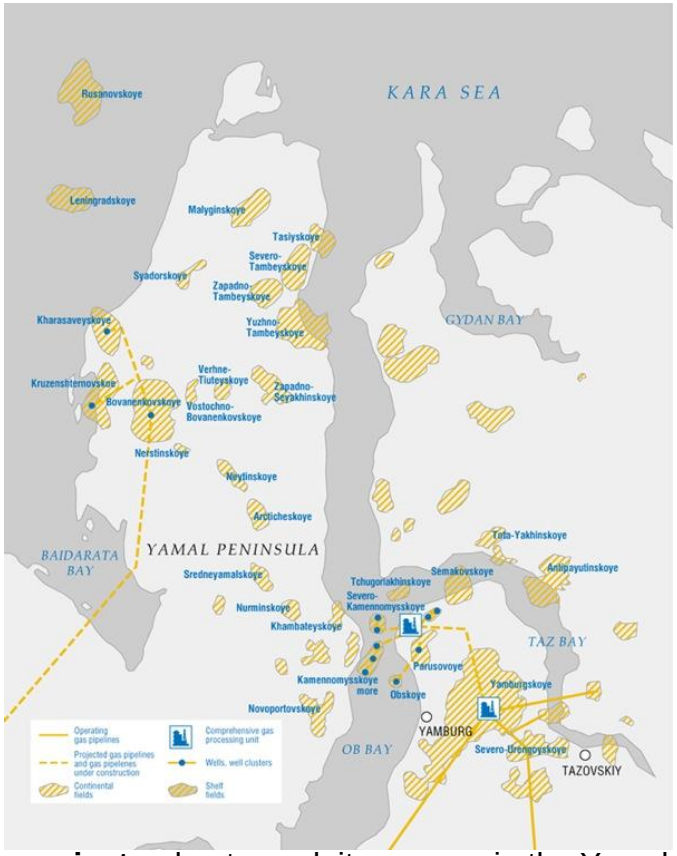

Source: Gazprom

The Yamal megaproject - plan to exploit reserves in the Yamal Peninsula (discovered 11 gas fields and 15 oil and condensate fields).

They consists of 16 trillion cubic meters (tcm) of evaluated gas reserves and nearly 22 tcm of in-place and forecast gas reserves. Condensate reserves are estimated to consists of 230.7 million tonnes and oil reserves to consists of 291.8 million tonnes.

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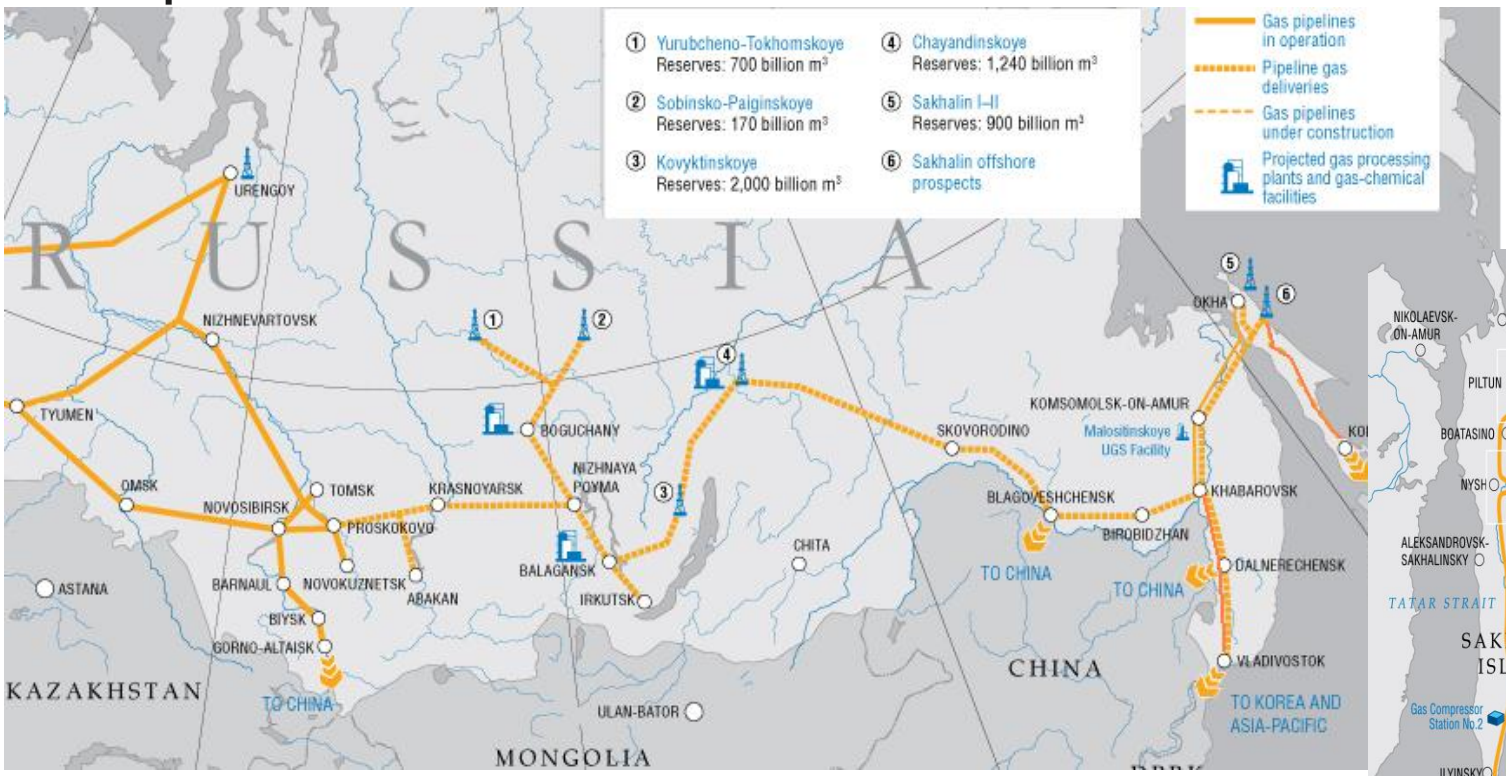

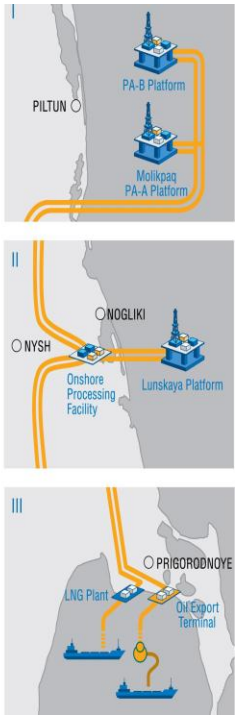

Source: Gazprom

Sakhalin II (PSA)
Gazprom – 50 %+1;
Shell – 27.5% - 1);
Mitsui – 12.5 %);
Mitsubishi – 10 %.

Eastern Gas Program - Development Program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries.
It is planned to establish gas production centers in the Krasnoyarsk Krai, the Irkutsk Oblast, the Republic of Sakha (Yakutia), the Sakhalin Oblast and the Kamchatka Krai.

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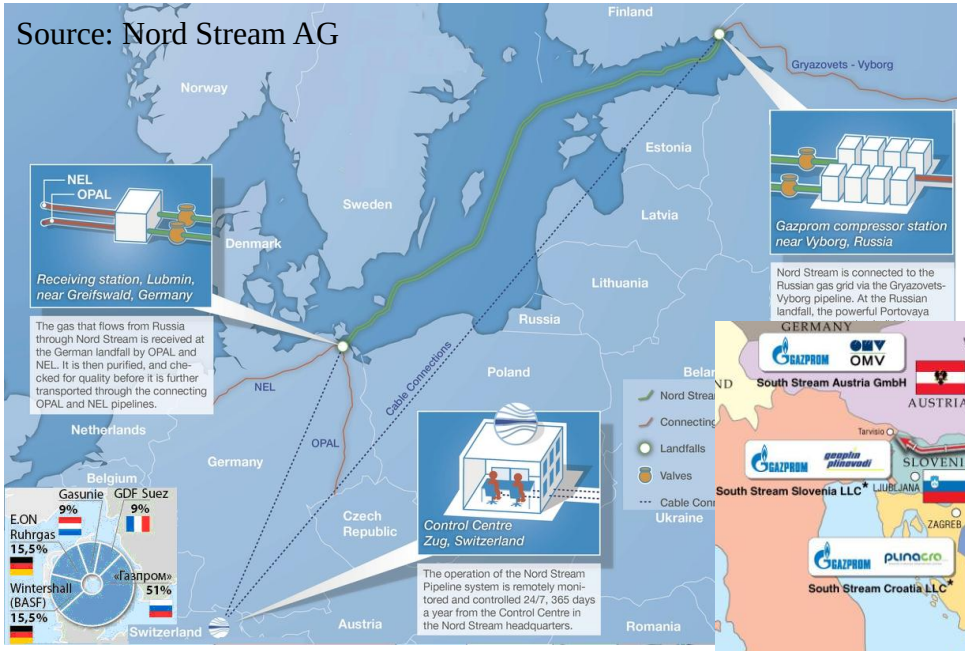

The North Stream – The two 1,224-kilometre offshore pipelines; the twin pipelines will have the capacity 55 billion cubic metres (bcm) of gas a year (one pipeline - 27.5 bcm capacity, commisioned in 2011).
The key gas sources for the Nord Stream Pipeline is the Yuzhno-Russkoye field (the Yamal-Nenets in Western Siberia (Russia) and in future Shtokman field

Source: Gazprom

The South Stream - The planned offshore pipeline project to run under the Black Sea from the Russkaya compressor station on the Russian coast to the Bulgarian coast. The total length of the offshore section will be around 900 kilometers, the maximum depth – over two kilometers and the design capacity – 63 billion cubic meters.

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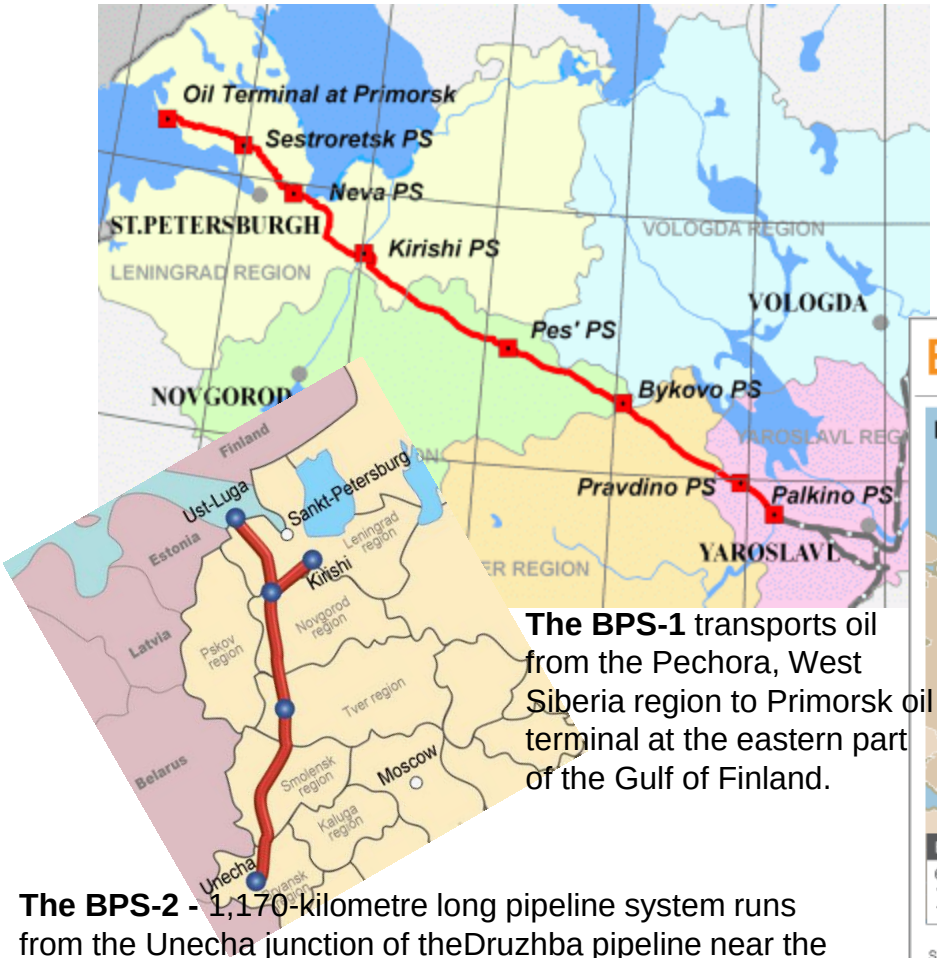

The BPS-1 transports oil from the Pechora, West Siberia region to Primorsk oil terminal at the eastern part of the Gulf of Finland.

The BPS-2 - 1,170-kilometre long pipeline system runs from the Unecha junction of theDruzhba pipeline near the Russia-Belarus border to the Ust Luga terminal on the Gulf of Finland.

The Eastern Siberia–Pacific Ocean oil pipeline (ESPO pipeline) - is a pipeline system for exporting Easte Siberia oil to the Asia-Pacific markets.

The first phase of pipeline is built in 2009 and operated by Transneft - 2,757 kilometres (1,713 mi) running from Taishet to Skovorodino. The second phase - Construction of the 2,100 km (1,300 mi) stage from Skovorodino to the Pacific Ocean would be launched in December 2012.

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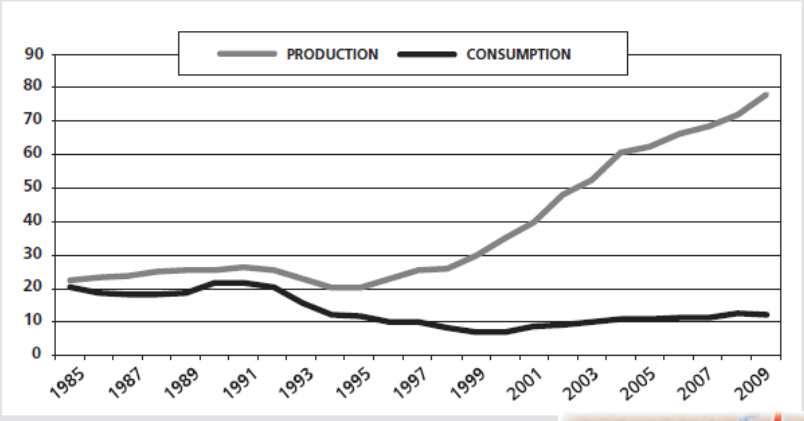
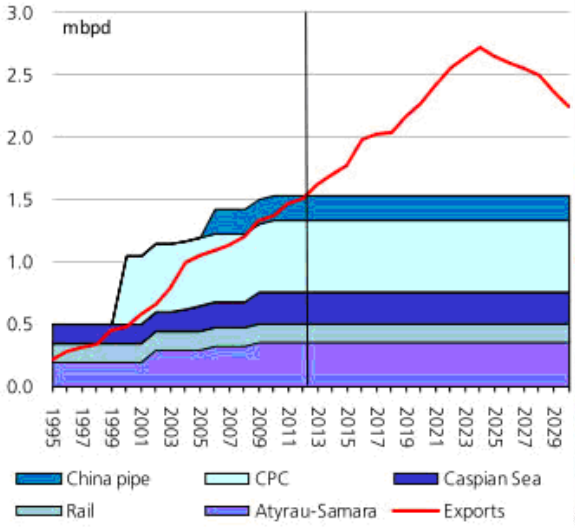
Kazakhstan's Oil Production and Consumption, 1985–2009 (million tons)



Source: BP Statistical Review 2010

The Caspian Pipeline Consortium is a consortium and a pipeline to transport Caspian oil from Tengiz field to the Novorossiysk-2 Marine Terminal on the Russian Black Sea coast



The Kazakhstan-China oil pipeline - 960-km Kazakhstan-China oil pipeline for oil supply to the China from the Aktobe region's fields and from theKumkol field (in the central Kazakhstan) with future the main supply source Kashagan field . An initial annual capacity of 10 million tons and full capacity of 20 million tons.

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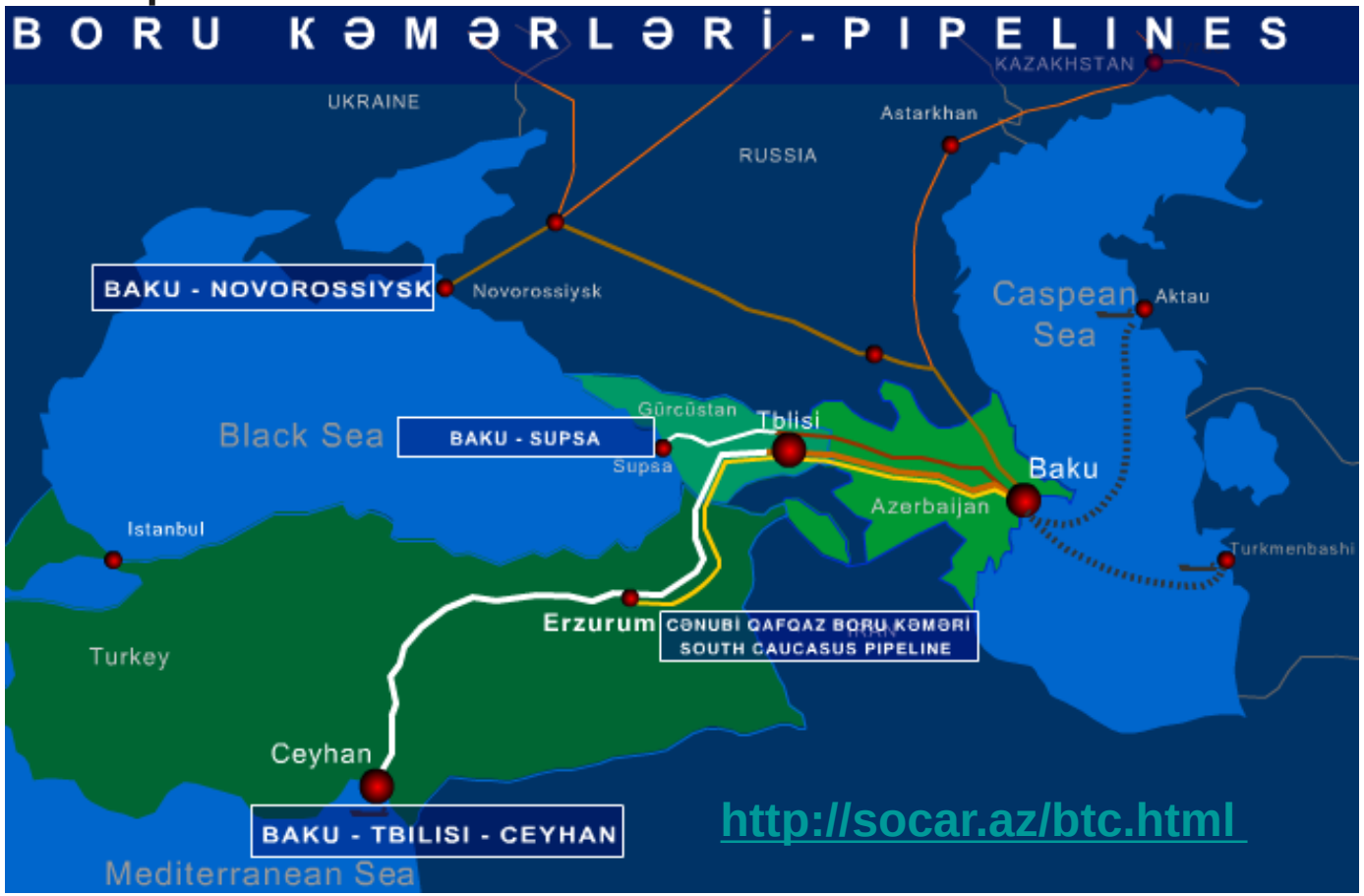

The **Baku-Tbilisi-Ceyhan pipeline** was officially opened in July 2006.
The oil is pumped from the Sangachal Terminal close to Baku to port Ceyhan, Turkey.
The BTC Pipeline Company (BTC Co), a consortium of 11 energy companies managed by BP – 30.01% and SOCAR – 25%.

The Baku–Supsa Pipeline (Western Route Export Pipeline) is an 833-kilometre long oil pipeline, which runs from the Sangachal Terminal to the Supsa terminal in Georgia.

The South Caucasus Pipeline - the 692 kilometres pipeline, began operation at the end of 2006, transports gas from the Shah Deniz field in the Azerbaijan sector of the Caspian Sea to the Turkey, through Georgia. The pipeline is owned by the South Caucasus Pipeline Company, a consortium led by BP (25,5%) and Statoil (25,5%).

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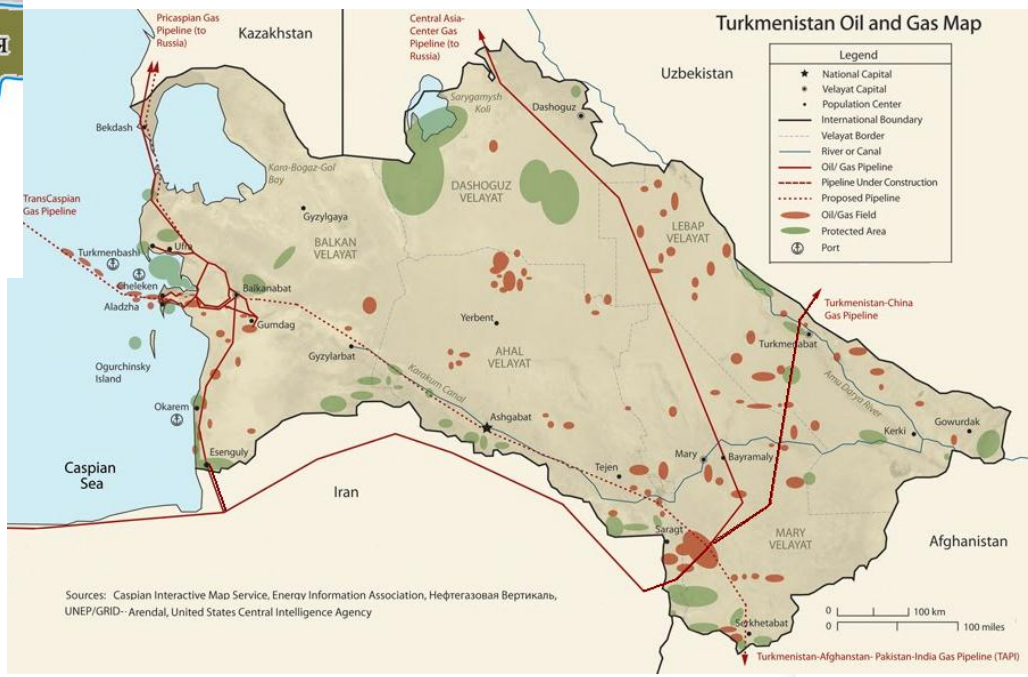
The Central Asia – China gas pipeline. The new transit route connecting China with Central Asia's vast natural gas reserves. The pipes runs more than 1,800 kilometers (1100 miles) from the Turkmenistan, cross Uzbekistan and Kazakhstan, and enters China's northwestern Xinjiang Uygur Autonomous Region. The projected pipeline capacity is 40 bcm, 30 bcm would be supplied from Turkmenistan and 10 bcm from Kazakhstan.

The first stage of the pipeline was completed in 2009. Gas shipments have start in 2010 at 4.5 bcm. To the end of 2012 an expected capacity will be increased to 30 bcm.

All Turkmen gas was exported via Russian pipelines until the 200-kilometer Korpeje-Kordkuy pipeline (western Turlmenistan) connecting Turkmenistan and Iran opened in 1997 with capacity of pipeline is 8 bcm.

The Dauletabad–Sarakhs–Khangiran pipeline. T second leg of export capacities to Iran (182 km.) started in 2010 to function in eastern Turkmenistan.

The Trans-Caspian Gas Pipeline is a proposed new submarine pipeline between Turkmenistan and Azerbaijan. (Russian and Iranian opposition to the project, an unresolved legal dispute over Caspian Sea territorial boundaries)



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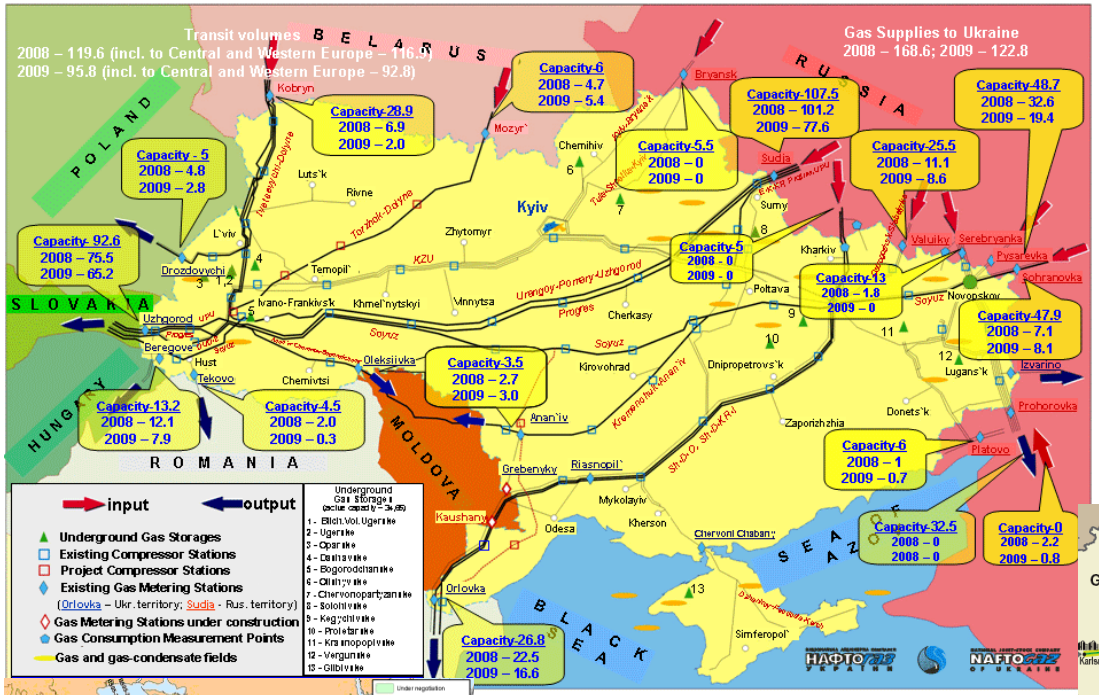
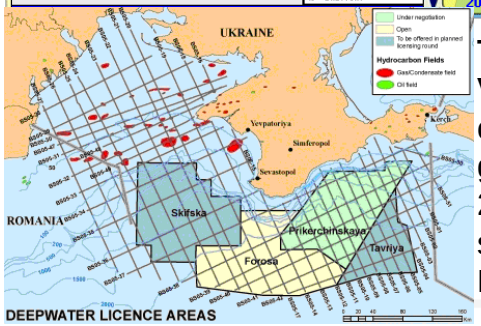
Capacities and Actual Volumes of Natural Gas Transit by Ukrainian Gas Transmission System (years 2008, 2009)
billion cubic meters

Input capacity - 288
Output capacity – 178.5
(incl. to Central and Western Europe – 142.1)





The first Ukrainian (PSA) with Vanco Prykerchenska Ltd. was concluded in the 2007 (in 2008 government suspended). In April of 2011 endorsed an amicable settlement agreement with Vanco Prykerchenska Ltd.

Ukrainian GTS an extensive gas transmission system, which consists of 39,800 km of pipelines and 13 underground gas storage facilities (32 bcm). The input capacity of the system is 288 billion, and the output **stands at 178,5 bcm a year.**
Ukrainian GTS is a main reason of "gas war" between Ukraine and Russia

The **Odessa–Brody pipeline** (also Sarmatia pipeline) is an oil pipeline between the Ukrainian cities Odessa at the Black Sea, and Brody near the Ukrainian-Polish border, with future plans to expand the pipeline to Plock and Gdansk (Poland). The pipeline (674 km) is operated by Ukrtransnafta.

The changing geopolitics of energy in CIS countries

Russia tries to monopolize energy supply to EU from the east, and have mainly succeeded in it.

Gazprom has a monopoly for the natural gas pipelines and has exclusive right to export natural gas, granted by the Federal Law "*On Gas Export*", which came into force on 20 July 2006.

CIS energy producing countries have tried to diversify its export routes and go out of reach of Russia, and mainly succeeded in it, also.

CIS energy consuming countries became main losers, they welfare is the matter of transformation of economy, and not all of them used that option.

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“The Energy Council recognizes Russia’s role as an indispensible part of Europe’s and the world’s energy solutions, particularly as the global leader in hydrocarbon production, and also acknowledged the role Russia played in helping to ease oil supply shocks in spring 2011.”

Joint Statement on the U.S. - EU Energy Council Ministerial
November 29, 2011

Development of internal energy markets

Would energy rich countries of former USSR secure long term supply of energy on world market?

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At the beginning of 2000, the energy resource export and production was identified by Russian authorities both as the basis for a strong and lasting economic development and as a mean to come back as a great power in world politics.

State support and planning in the energy sector are seen as crucial elements of this process. Russian government has the right to control and define priorities in every part energy industry. That was implemented in Energy Strategy up to 2020 and later Energy Strategy up to 2030 years.

By 2007 the Kremlin had then secured its full control on the oil and gas sector as was in the government's plans and it could dispose of its exports to achieve maximum revenues for the state's budget and expand Russia's influence abroad.

State control was also reasserted on foreign investments and properties in Russia's hydrocarbon sector.

However, the problem of developing new giant fields capable of sustaining Russian production for decades and of maintaining the pipeline grid was not properly addressed.

On 2 February, 2012 due to strong winter in Russia Gazprom was not able to meet demands in peak gas supply for Europe. Austria and Slovakia did not not accept 30% of asked gas; Italy – 24%; Poland - 8%.

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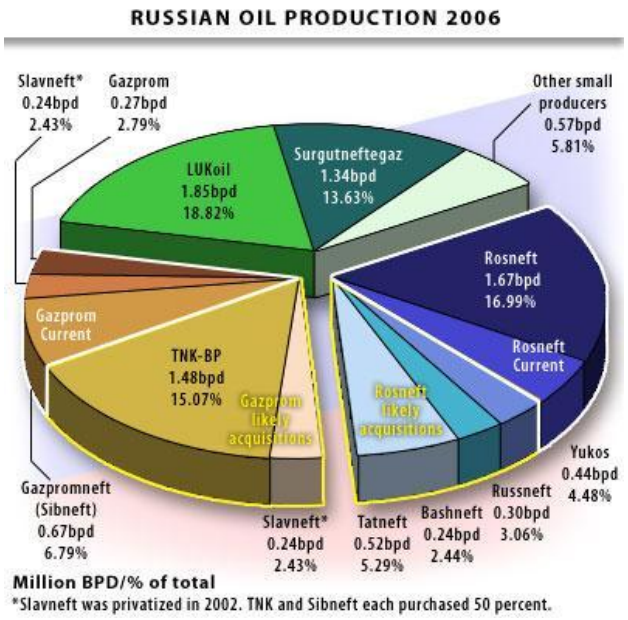

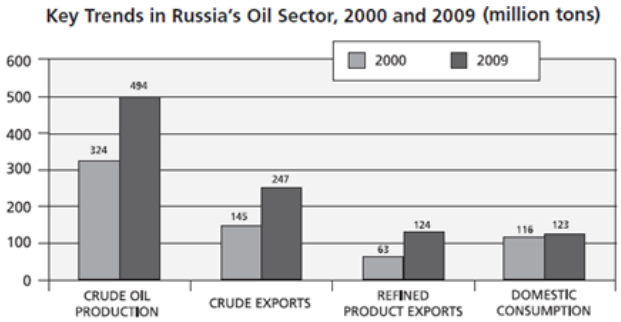

Source: Carnegie Endowment

The Russian oil sector was re-shaped to conform to the new ideology, but he remains relatively liberalized with available private involvement.

Russia needs to "implement its energy sector tax and investment reforms in a transparent and consistent manner, as well as promote further market opening in the energy sector".

Russia is in the process of vigorously expanding its oil export capacity. But recoverable reserves in East Siberia are not sufficient to secure the required crude oil for ESPO to operate at full capacity. Filling it will almost certainly require attracting substantial volumes of West Siberian crude (that create challenge of sufficiency of volumes for Russia's pipelines in the West).

What changed the least was that Transneft maintained its firm control over the transportation of crude oil. With a few minor exceptions, the Kremlin blocked efforts by private oil companies to build their own pipelines, perpetuating Transneft's role as the state's means for controlling the oil industry overall

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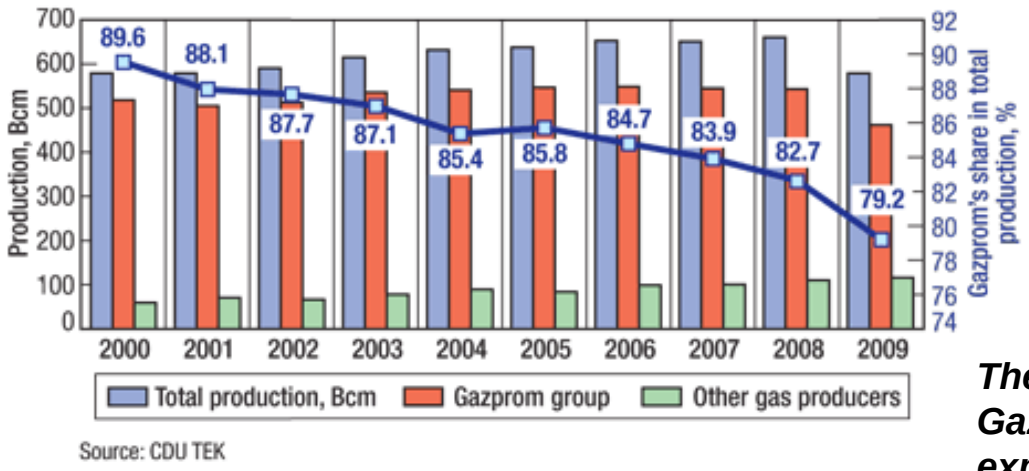
The Russian gas sector is more regulated by state. “Gazprom” made own policy priority the need to get control over all assets in industry.



Gazprom production is not able to cope with both foreign and domestic demand. The “independent gas producers” (IGP) are involved in gas production in Russia.

Russia is thought to burn up to 50 bcm a year of associated oil gas, according to estimates by the World Bank, while official Russian statistics put the amount at 24 bcm per year.

The problem of access to pipelines owned by Gazprom (access to internal market and export).

Russia's Federal Anti-Monopoly Service (FAS) plans to amendment the gas export law that would allow independent gas producers (IGP) to participate in natural gas exports have not been realised (since 2007).

In January 2009 Prime Minister Vladimir Putin pledged to grant independent gas producers better access to the Gazprom-controlled pipeline system

In February 2011 V. Putin ordered the government and the country's gas giant Gazprom to work on allowing access to pipelines for independent producers, still without success.

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

The problem of "equal profitability" from domestic and external sales

The Russian government planed transition for 100% liberalization of gas and electricity prices.

By 2011 all Russian electric power was expected to be traded on the market as well as introduction of the market-based gas price formula that would rely on equal profitability between the domestic and foreign gas supplies.

Due to the crisis events observed in the global and Russian economies the Russian Federation Government postponed plans to the 2014.

At present up to 50% of gas production still are sold at regulated prices (around 260 bcm).

Instead of the full liberalization of the energy market, the Russia before the election started again restrict market and tries regulate price. The market in fact is free to only 35%.

The coal market in Russia and Kazakhstan was liberalized and transformed to competitive model market.

The problems of subsidies on internal markets

A principal social legacy of the former USSR countries was a network of inkind benefits (called ‘privileges’ or lgoty) allocated to various categories of citizens. The non-cash system of social benefits opposed energy sector reforms.

Two main exporters of energy resources Russia and Kazakhstan transformed Soviet type subsidizing schemes for consumers and especially households. The main components were:

- Stopping usage of paymants to housing and public utilities´ complex as compensation of the difference between economically sound service cost and real payment by the citizens.
- The transference of in-kind benefits to the coverage of housing and public utilities services offered in the form of discount, to real money grants.

Kazakhstan by order of government from 1 January of 1998 replaced all in-kind social benefits with monetary compensation.

The Russian reforms started in 2004, after approving the law No.122-FZ, uniformly referred to as ‘The Law on Monetization’ (reforms mainly were accomplished in 2010).

Moldova in 2001 replaced broad range of social benefits with cash payments, also.

Ukraine, in contrast, continues utilisation of in-kind social benefits in form of payments to housing and public utilities´ complex.

The transparency of energy policy

Is it secure to make investments in energy sector of former USSR?

The problem of corruption

The cost of construction

Transneft's ESPO costs had reached 381 billion rubles ($12.5 billion) at the beginning of 2010 (according to the company's chairman, Nikolai Tokarev), while an additional 323 billion rubles ($10.6 billion) was slated for the next stage of expansion.
In 2011, Moscow lawyer A.Navalny published internal Transneft documents proving that company directors embezzled 4 billion dollars of public funds intended for the building ESPO, using fake subcontractor companies to transfer the money onto offshore accounts.

The costs of "Gazprom's" pipelines at times exceed the cost of laying pipes in Europe. The discrepancy can not be attributed to climate and infrastructure requirements, said analysts.

- the average cost of a kilometer gas pipeline, built by "friendly" contractor "Gazprom" as part of the Russian "North Stream" is 5.8 million euros, and a similar route kilometer in Germany (system OPAL) costs 2.1 million euro (calculations of East European Gas Analysis).

On 13 May 2011, Gazprom for the first time published information confirming the views of experts that the costs of implementing the company's gas pipeline projects are many times higher than similar investments in Europe and the USA. According to that the costs of building 1 km of pipeline from Sakhalin is over US$9 million while European pipelines (for example, the NEL US$3 million per km); the price of 1 km of gas pipeline from Yamal (US$15 million) exceeds that of the more complex project in Alaska (the Denali - US$10 million).

The problem of corruption

The cost of construction

Experts estimate that state-controlled companies such as Gazprom and pipeline monopoly Transneft could cut their costs by at least a quarter if they weeded out corruption.

The inflation in the cost of the pipeline projects benefits their contractors, originally Gazprom-owned companies (such as Stroygazmontazh, Stroytransgaz, Stroygazkonsulting), which the parent company sold to acquaintances of Prime Minister Putin.

Gazprom published information (in May 2011), in line with with government regulations about the disclosure of data by monopoly providers of transport services

In September 2011 chairman of Gazprom A.Miller in his letter to Prime Minister V.Putin had asked to change the legislation and withdraw the transaction "Gazprom" and its "daughters" from the control over transfer pricing (internal groups prices). A.Miller said that ministry of energy (Shmatko) support the Gazprom initiative, but the ministry of finance (A.Kudrin) opposed it.

On September 26, 2011, A.Kudrin was dismissed from the post of Minister of finance.

In December 2011 just 3 month ahead of presidential elections, Prime Minister Vladimir Putin demanded the checks of state companies be conducted to root out corruption schemes and links with offshore holdings.

"From 352 top managers of energy companies 162 officials - that almost every second - were affiliated with 385 business organizations." They withdrawal of funds from the industry through offshore companies and affiliated structures. **V.Putin**

The non transparency of energy policy

Yukos case. Ater Yukos crash, its assets was bought by unknown Baikalfinansgrup in December 2004**.** At the auction for 76.79% share of Yugansneftegaz (the core production subsidiary of Yukos) Baikalfinansgrup won with a bid of US $9.3 b (which was somewhere between 37-49% of Yuganskneftegaz' market value at the time).

On February 7, 2006, in response to a question by a Spanish journalist, Russian President V.Putin disclosed that Rosneft had used Baikalfinansgrup as a vehicle to acquire Yugansneftegaz in order to protect itself against litigation risks.

Sakhalin 2 project. The first Russian PSA was signed in 1994. Production began in July 1999, and in September 1999 the first oil was exported.

The consortium Sakhalin Energy had a contract to produce gas without a local partner. In 2005–2006 the consortium was heavily criticized due to environmental issues. Under legal and political pressure, the consortium was forced to sell a majority stake to Gazprom.

On 21 December 2006, Gazprom took control over a 50%-plus-one-share stake in the project by signing an agreement with Royal Dutch Shell. Russian President Vladimir Putin attended the signing ceremony in Moscow and indicated that environmental issues had been resolved.

Kovykta case. Under the license for the Kovykta field, TNK-BP was obligated to produce at least 9 billion cubic meters by 2005. TNK-BP requested access to Gazprom's pipelines, which the gas monopolist refused. In next move the non development of field became a reason for attacks on TNK-BP. In 2007 Gazprom conclude a deal with TNK-BP for buy out a 62.8% stake in the Kovykta gas field.

Gazprom in December 2008 asked TNK-BP to reduce the price for the purchase of the Kovykta field, originally estimated at $700-900 million. In March 2011, Gazprom bought assets of the bankrupt operator of the Kovykta deposit, RUSIA Petroleum, a unit of British-Russian oil firm TNK-BP, for about 22.6 billion rubles ($771 million), at an auction.

The problem of corruption

Ukraine Vanco case

The first and sole international competitive bidding for offshore oil field development (Prikerchenskiy offshore block in the Black Sea) **was *"a classic case of non-transparency, rent-seeking, and professional incompetence".*** *Bids were collected under an ill-conceived process, and a was announced the tender winner.* At the end of 2007, the production sharing agreement (PSA) with "*small independent American oil company Vanco",* was signed by the outgoing government.

E. Chow, J. Elkind. Where East Meets West: European Gas and Ukrainian Reality

The next government (Tymoshenko) cancelled Vanco's license, allegedly due to problems in the fairness of the tender process). In May 2008, it was revealed that Vanco's Pricherchenskiy investor group includes the DTEK (owned by Ukraine's richest man), as well as other mysterious entities like little known Shadowlight Investments Ltd. (reportedly owner Russian businessman Y. Novitskiy), and Integrum Technologies (Austria).

According to a number of reports in the press and the book Darkness at Dawn-The Rise of the Russian Criminal State (David Satter), Evgeny Novitsky is alleged to be a member of, or very close to, Russia's Solntsevo organized crime gang.

On August 1, 2008, **Vanco took the matter to international arbitration**. Again, new government (M.Azarov) in April of 2011 endorsed an amicable settlement agreement with Vanco Prykerchenska Ltd. but it was not responded by the company, and for unknown reason still hasn't been signed.

As result the field is not developing.

The problem of corruption

Ukrainian-Russian "gas wars"

Ukrainian gas sector continues have being operated in a nontransparent manner since the fall of USSR. To some degree it was the main point of accusation of Ukraine during "Russian-Ukrainian gas wars" .

The main point of public awareness was focusing on the middleman firms that were involved in gas trade business with Russia (created with agreement and utilized by Gazprom - **ITERA up to 2002, EuralTransGas 2003-2004, RosUkrEnergo 2004-2008**).

Gazprom and Russian government officials have always blamed the Ukrainians while the Ukrainians have always blamed the Russians. But fact is - Gazprom allows billions of dollars of profits flow into the pockets of a intermediaries and Ukrainian have allowed them to occupy a central place in the Ukrainian economy. This mutual business was marked by constant war for the shares of leverage.

Russia suspended natural gas exports to Ukraine several times between 1992 and 1994.
Disruption of gas supply through Ukraine to Europe:
in 2006 - during January 1 through 4 January, 2006.
in 2009 – during January 1 through 20 January, 2009.

Together with middleman firms on gas market of Ukraine there are several beneficiaries, well-positioned individuals and key political forces that use theirs position for personal enrichment and as sources for political funds.

Ukrainian officials are saying that transit across its territory is less expensive than across other new routes constructed by Gazprom, what is true. But non-transparency and no reformed state of gas market create an uncertainty premium that the market is no longer willing to bear.

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Conclusions for energy policy developments of former USSR countries

The reason for success in Russia, Azerbaijan, Kazakhstan and Turkmenistan was real commitments of all actors to new projects developments (local governments, foreign companies on upstream side as producers, foreign companies on downstream side as consumers).

The success of Caspian countries in diversification of export routes was possible through active involvement of foreign actors as well as "non wise" (or "imperial") behavior of Russia.

There emerges "bad" side of the problem of coordination energy policy and energy project realization (evidence that high commitments of local players were created and supported through non-transparency and corruption).

Former energy pour USSR countries have had to cope with post Soviet legacy (the need to change behavioral habits in economy and policy as well as energy infrastructural problems) **through introduction liberalized energy market and competition as a main principle of governance.**

Ukraine is the biggest looser of the game. Though "non wise" behavior of Russia towards Ukraine was abundant, obvious absence of "commitment" of Ukrainian government and local power elite for changes jeopardize future of Ukrainian energy sector as well as make more complicated European energy policy goals.

Nevertheless Ukraine is a key country for securing energy security of Europe. The future developments of energy policy in Ukraine will determine energy issues for all Eurasia.

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Implication for European and global energy security

Energy: political weapon or pragmatic business

Does it safe to trust in stability of energy contracts with Russia?
Faraway and close neighbors: is there a difference?

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Russia interrupted oil supplies to the Baltic States (1991-1992; 1998-1999; 2006)

Ukraine-Russian energy “wars” (gas 1992-1998, 2006, 2009; oil 2007-2008; electricity 1999-2001)

Georgia energy disputes (electricity 2001, 2006; gas 2006)

Belarus energy disputes (gas supply interruption 2004, 2007; oil 2007)

Turkmenistan disputes (gas 1997-1999, 2003-2004, 2009)

Russia has recently been accused in the West of using its natural resources as a policy tool to be wielded against offending states like Ukraine, Georgia, Baltic States, and others. According to one estimate, since 1991 there were more than 55 energy incidents, of which more than 30 had political underpinnings. Only 11 incidents had no political connections.

On the other hand, Russian officials like to remind their Western partners that even the Soviet Union never disrupted energy supplies to the West.

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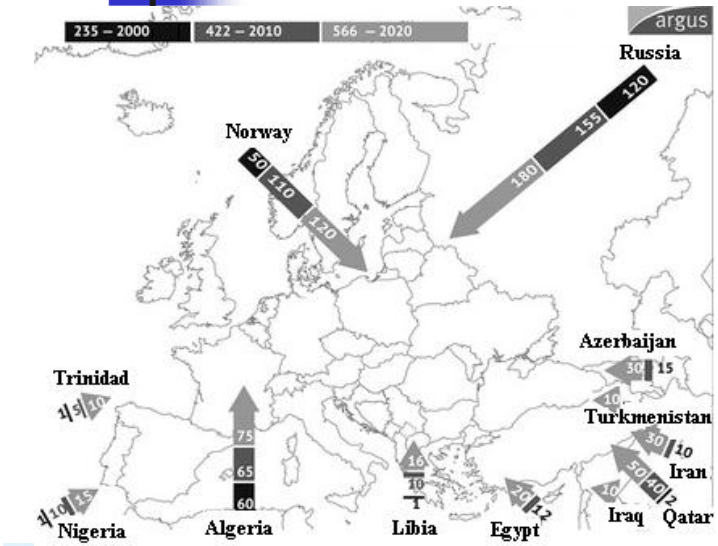

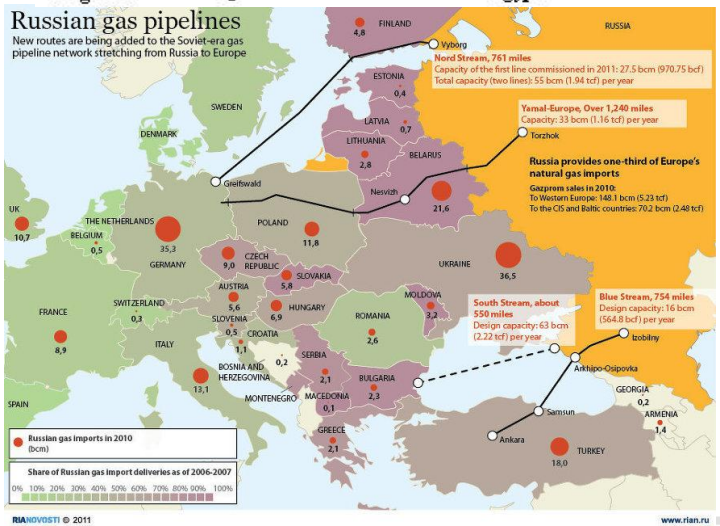

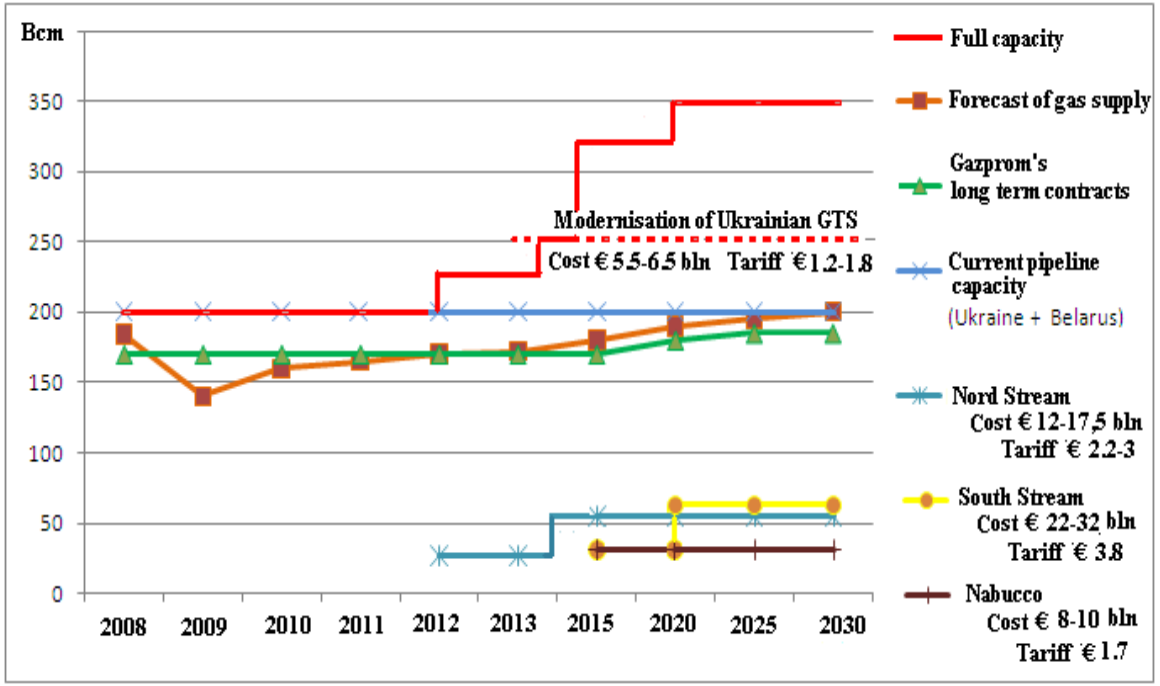

Russia (producer) and EU (consumer) are going to put additional financial burden (cap.ex - €30-50 billion plus yearly op.ex €1-2 billion) on citizens of their countries through development of additional pipelines

Involvement in non transparent deals over energy

Can world “close the eyes” on energy policy drivers in former USSR countries?

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

"Schröderisation of Europe" – controversial involvement of high ranking European officials (and not only) and companies in non transparent deals over energy

The Nord Stream pipeline. By invitation of V.Putin former Chancellor of Germany became the Chairman of the Shareholder Committee, Nord Stream AG. Before accepting position at Nord Stream AG Schröder, on the eve of resigning from Chancellor of Germany, proposed that the German government underwrites a loan of one billion euros to Gazprom from two German banks for the construction of part of the pipeline. In the event that Gazprom was unable to repay the loan, Schröder's government agreed to pay much of the Russian company's debt.

The Blue Stream pipeline had strong support from big Turkish corporations doing business in Moscow. A corruption scandal that has engulfed top Turkish officials, including Deputy Prime Minister Mesut Yilmaz, over Blue Stream. Charges being leveled against Yilmaz range from lobbying for Blue Stream in order to help his construction magnate cronies secure deals in Russia, to awarding the contract to build the pipeline's Turkish section to associates in the Motherland Party. Cumhur Ersumer, the former energy minister and a close Yilmaz ally, was forced to step down in April 2001.

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The South Stream pipeline. The South Stream pipeline project was established in 2007 by Gazprom and Eni for the commissioning of the marketing and technical feasibility studies of the project. For some reason (maybe because of G.Schröder's "bad glory"), former-prime minister of Italy, Romano Prodi earlier and French ex-president Jacques Chirac recently rejected Vladimir Putin's proposal to head South Stream AG. But Silvio Berlusconi (V.Putin's friend), then rime minister of Italy heavily supported the project.

Absence of transparency in gas relationship with Russia has come under scrutiny by Italian parliamentarians. The commission discovered close nontransparent relations between Gazprom subsidiaries and company of S.Berlusconi's close friend that resulted in a lucrative contract. Italian lawmakers blocked the agreement, accusing Prime Minister Silvio Berlusconi of having a personal interest in this contract through his friend's participation.

The Italian's energy company has another controversial story connected with Yukos assets. The Eni and Enel took part in "redistribution of Yukos" for benefits of Gazprom. Both Eni and Enel have formed a joint venture with a Russian partner and participated in this auction for Yukos gas assets. Later Gazprom bought these assets from Eni and Enel paying more than 4.6 bln $, which was generous in comparison with market prices.

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James Giffen case (Kazahkgate). J.Giffen, arrested on March 30th, 2003, was indicted on charges of channeling over $78m in payments from **Mobil and** other western oil corporations **(ConocoPhillips and Amoco, now part of British Petroleum)** to senior Kazakh officials.

Federal documents allege that Giffen funneled millions of dollars in fees received from Mobil, in a tangle of wire transfers, to bank accounts controlled by two senior Kazakhstani officials. Reportedly, President Nazarbayev controlled at least one of the Swiss bank accounts in which the money was discovered.

USA government was investigating transactions involving Mobil Oil Corp. in 1995-96 (before a 1999 merger created ExxonMobil) in which Mobil obtained a 25 percent stake in Kazakhstan's Tengiz oilfield for just over $1 billion. If Mobil knowingly sent money to a foreign official in order to win business, it or its executives could be in violation of the FCPA. The penalties for such a violation include hefty fines and possible prison terms.

On April 3, the government filed charges against **a retired Mobil executive, J. Bryan Williams,** which kept $7m in unreported income in a Swiss bank account, including kickbacks amounting to $2m from the Tengiz deal paid to him by James Giffen. On June 13th, 2003 J. Bryan Williams pled guilty to conspiracy to commit fraud and tax evasion, and agreed to a **sentence of 46 to 57 months with no appeal**. He also had to pay all the owed back-taxes.

After four years of investigation, Giffen was charged with thirteen counts of violating the FCPA and thirty-six counts of criminal money laundering.

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In the end, Giffen pleaded guilty to failing to disclose in his 1996 tax return that he was a signatory on a Swiss bank account, to which Nazarbayev was the beneficiary. And Giffen's Mercator Corp., pleaded guilty to giving Nazarbayev speedboats.

On November 2010 U.S. District Judge William H. Pauley III sentenced J.Giffen to the time served for a misdemeanor tax violation and praised him as a Cold War hero who helped thousands of Soviet Jews emigrate to the West.

"Giffen used his expertise to advise Kazakhstan on foreign investments and provided advice on economic development, helping the country develop its vast natural resources". "In doing so, he advanced the strategic interests of the United States and American businesses in Central Asia," Pauley said.

"Throughout this time, he continued to act as a conduit for communications on issues vital to America's national interest in the region."

Also, the judge ordered Mercator Corporation, a small New York merchant bank controlled by Giffen, to pay a $32,000 fine for giving two snowmobiles each worth $16,000 in 1999 to a high-level Kazakh official to seek an advantage in contracts. The bank had pleaded guilty to violating the Foreign Corrupt Practices Act.

Geopolitics and/or corruption

Does it a problem – an international corruption on energy markets?

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Transparency of international energy markets

Gazprom has more than 100 middlemen companies scattered throughout Europe. The off-shore heaven of Cyprus, British Islands, other teritories.

There is growing indication that corruption is now being used to influence the energy policies of European countries outside of the former USSR.

Opaque schemes implemented in international deals have tendency to be implementing also on internal energy markets that leads to high level corruption and imposing additional financial burdens on end-users.

Opaqueness of deals, no transparency of energy industry and corruption behind a scene create a basis for energy companies to monopolize regional energy market without the interference of third parties, - governments and regulators.

Energy Security of Ukraine: Geopolitics, Economics and Governance

There is a fundamental problem with the enforcement of any law forbidding bribery of foreign officials.

The authority recognizes that American investors were rewarded and American workers found jobs as a result of deals with foreign governments whose officers often expect bribes.

The responsible public officers so engaged are required to punish their fellow citizens, with whom they may have diverse connections and shared interests, and to whom they owe their official status, in order to protect a distant government with whom they have no connection.

How much effort can national prosecutors reasonably be expected to expend investigating possible violations of such international criminal laws?

The weakness of the global resolve to punish foreign corrupt practices is evident.

Paul D. Carrington. Essay “Enforcing International Corrupt Practice Law”

Risks and challenges for global energy security

Why should international community be interested in transparency of energy policy in Former USSR (especially in Ukraine)?

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Security of energy infrastructure

The success of subduing of all energy assets by Russia in its “sphere of interest” by usage of aggressive approach (“pragmatic”, “non wise”) could as a reaction lead to dispersing of the practice of sabotage and damages of energy infrustructure.

Stoppage in 2009 of gas supply by Gazprom to European consumers due to disagreements with Ukraine lead to suffering Eastern European countries.

Explosion on the **Central Asia-Center gas pipeline** on April 9, 2009. Gas production declined in Turkmenistan, export was stopped for one year.

A major military exercises in the basis of Caspian Sea was used to prevent construction of **the Trans-Caspian Gas Pipeline** (in September 2011). Some experts said “Building the TCP will mean the de-facto recognition of the division of the Caspian Sea into sectors. This is absolutely unacceptable for Russia and it will have to take action, similar to the operation compelling Georgia to peace.”

The war between Russia and Georgia in Summer of 2008 over the South Ossetia **cast doubts on the security of the Baku-Tbilisi-Ceyhan (BTC) pipeline**. The pipeline was shut down briefly. Concerns about the security of the BTC pipeline on the territory Azerbaijan and Georgia stipulated also by unresolved conflict over the status of Nagorno-Karabakh with Armenia).

On explosions on the **Mozdok-Tbilisi pipeline** (in January, 2006) in North Ossetia suspended gas supply to Georgia and Armenia. The explosions occurred on a main and reserve pipeline, running on opposite banks of the headwaters of the Terek River and coincided with an explosion **on electricity lines miles away from the pipeline** (lane was brought down by just hours later).

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Is there a big difference between next attacks:

An explosion (on 6 August 2008), and fire in eastern Turkey Erzincan province closed BTC pipeline. The Kurdistan Workers Party (PKK) took responsibility for the attack.

Explosions of Egyptian pipeline in Egypt's northern Sinai Peninsula that transports gas to Israel and Jordan (November 2011 through February 2012). There was more then seventh explosion to hit the pipeline.

What measures could be taken to secure infrastructure?

The most obvious way to increase pipeline security is the use of patrols and the creation of buffer zones along the pipeline routes into which unauthorized personnel are prohibited from entering.

Gal Luft. *Executive director of the Institute for the Analysis of Global Security (IAGS).*

What kind of future will we have?

The Changing Geopolitics of Energy in Russia and the Former Soviet Union

Ukraine is the biggest looser of the game in the Eastern Europe, up to now.

Why should we care about Ukraine?

Non-transparent and corrupt business practices can have a corrosive effect on other countries, their governments and companies, and especially on the new EU member states of East Central Europe and countries of former USSR.

Ukraine is pivotal focus for establishments of transparent energy policy in Europe.

If Ukraine fail the corruption will increase its influence over Europe. A dysfunctional or unstable Ukraine could lead other countries in the region to behave the same way.

If Ukraine successfully go through transformation of internal energy market it will greatly contribute to global energy security.
Ukraine can also have a very positive influence in the neighbourhood.

Thank you for attention!