

The relationship between the United States and Russia since 2000 has been a complicated one, with several twists and turns. Relations were chilly up until September 11th, 2001. On that day, then-President Vladimir Putin (in office from August 1999 to May 2008) was the first leader to call President Bush offering support, and later provided intelligence for America's invasion of Afghanistan.¹ There was even talk of forming a "strategic partnership" with Russia.² By the commencement of the Iraq war, however, relations had taken a marked downturn, from which they have not recovered. As Russia became increasingly authoritarian at home and was perceived as overly aggressive abroad, relations continued to deteriorate, with some commentators in 2007 and 2008 wondering if a new Cold War is in the making. At the same time, oil prices have marched steadily upwards since the second quarter of 2002. Then, the average world spot price for a barrel was \$23.62, which rose to \$38.64 in the last quarter of 2004 and to an astounding \$87.62 at the end of 2007.³ Russia has been one of the main beneficiaries of this trend, as it exports enormous quantities of oil and natural gas. This has caused substantial economic growth in Russia – GDP has increased by an average of 6 to 7% a year since 1999⁴ and the state established a stabilization fund worth \$158 billion by the end of 2007.⁵ The IMF and World Bank estimate that, in 2005, "the oil and gas sector represented around 20 percent of the country's GDP, generated more than 60 percent of its export revenues (64% in 2007), and accounted for 30 percent of all foreign direct investment."⁶ Thus, many commentators have linked the two trends. One article argues that "energy is at the heart of Russia's economic performance and renewed confidence on the global scene."⁷ Another states that "Buoyed by high oil prices, Russian leaders are standing tall for the first time in almost two decades".⁸ A third believes that "the era of sky-rocketing oil prices ... is fueling Moscow's sense of importance and success."⁹

The question this paper will attempt to answer is whether the increase in the price of oil has indeed led to an increase in Russian aggression abroad.¹⁰ First, Russia's oil and gas industry will be briefly described, as will Russia's foreign policy development between 2000 and 2007. Second, original research data will be presented which correlates the increase in oil prices to an "aggression index" of Russia's foreign policy, and the results will be examined. Third, potential linkages of oil to foreign policy decision-making will be analyzed. Fourth, potential alternative

¹ "The Big Chill", *The Economist*, May. 17, 2007.

² John Edwards et al., "Russia's Wrong Direction: What the United States Can and Should Do," Independent Task Force Rep. No. 57, Counsel on Foreign Relations, March 2006, 29.

³ U.S. Energy Information Administration, "Weekly All Countries Spot Price FOB Weighted by Estimated Export Volume," <http://tonto.eia.doe.gov/dnav/pet/hist/wtotworldw.htm>. Prices manually averaged to derive figures.

⁴ Fiona Hill, "Moscow Discovers Soft Power," *Current Hist.*, Oct. 2006, 341.

⁵ U.S. Energy Information Administration, *Country Analysis Brief – Russia – Background*, May 2008, <http://www.eia.doe.gov/emeu/cabs/Russia/Background.html>.

⁶ Ibid.

⁷ The Brookings Institution, "The Russian Federation," *Brookings Foreign Pol'y Stud. Energy Sec. Series*, 4 (Oct. 2006).

⁸ Dmitri Trenin, "Russia Redefines Itself and Its Relations With the West," 30:2 *Wash. Q.*, 95, 97 (Spring 2007).

⁹ Andrei Denisov & Alexi Grivach, "The Gains and Failures of the Energy Superpower," *Russia in Global Affairs* (Apr./June 2008), <http://eng.globalaffairs.ru/numbers/23/1197.html>.

¹⁰ The results of a previous version of this paper were published in a short article: Thomas Brugato & Charlie Szrom, "Liquid Courage," *The American*, Feb. 22, 2008, <http://www.american.com/archive/2008/february-02-08/liquid-courage>.

hypotheses for the measured changes in Russian foreign policy will be evaluated, and some overall conclusions discussed. Fifth, Russia's future foreign policy outlook and energy prospects will be examined, with the conclusion assessing the implications for the West.

I: Brief background on Russia's oil production

Russia is one of the most important energy producers in the world, in terms of both oil and natural gas. It is the second largest producer of oil and the largest producer of natural gas accounting for 12.9% and 22% of world total, respectively, in 2006.¹¹ It is also the second largest exporter of oil and the largest exporter of natural gas.¹² Russia has around 6% to 10% of the world's known oil reserves.¹³ Russia holds the world's largest natural gas reserves, about twice that of the second-largest country, Iran.¹⁴

As noted above, these energy resources are critical to the Russian economy, as a few more statistics illustrate. Taxes on oil and gas provide 37% of budget revenues, and research by the World Bank and IMF estimates that each dollar increase in the price of a barrel of oil raises Russian budget revenues by around .35% of GDP.¹⁵ Other sources indicate that oil and gas provide 50% of budget revenues and 65% of exports.¹⁶ Of Russia's 100 largest companies, 75% are in the oil and gas sector.¹⁷ Recognizing this, Putin described the energy sector in May 2006 as the economy's "holy of holies".¹⁸ As the Council on Foreign Relations notes, "There is no doubt that the price of oil...has played the decisive role in Russia's turnaround".¹⁹ Russia has also increased its oil production over the past seven years as well. Daily production dropped to 5.85 million barrels per day in 1998, rebounding to over 9 million per day in 2005.²⁰ As a result, Russia's economy has grown by more than 70% in real terms since 1999, assisted by more than \$750 billion in revenue from energy sales.²¹ Additionally, Russian foreign exchange reserves increased from a low of \$6.6 billion in October of 1999 to over \$430 billion by 2007.^{22 23}

¹¹ International Energy Agency, *Key World Energy Statistics*, 11, 13 (2007).

¹² Ibid.

¹³ Leon Aron, "Russia's Oil: Natural Abundance and Political Shortages," *Russ. Outlook, Am. Enterprise Inst. for Pub. Pol'y Res.*, (Spring 2006): 1.

¹⁴ U.S. Energy Information Administration, *Country Analysis Brief – Natural Gas*, May 2008, <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>.

¹⁵ Hill, 344.

¹⁶ "Trouble in the Pipeline," *The Economist*, May 8, 2008.

¹⁷ Robert L. Larsson, "Russia's Energy Policy: Security Dimensions and Russia's Reliability as an Energy Supplier," *Swedish Defense Research Agency*, (Mar. 2006): 35.

¹⁸ Brookings Institution, 25.

¹⁹ Edwards, 10.

²⁰ Ibid.

²¹ Neil Buckley & Catherine Belton, "Clan With a Plan," *Financial Times*, Nov. 29, 2007.

²² Brookings Institution, 7.

²³ The Central Bank of the Russian Federation, *International Reserves of the Russian Federation*, (Dec. 7, 2006), http://www.cbr.ru/eng/statistics/credit_statistics/print.asp?file=inter_res_06_e.htm.

Energy resources are intensively managed by the state. Gazprom is Russia's state-run gas monopoly, which produces nearly 90% of Russia's gas and operates the country's gas pipeline network.²⁴ It provides the state with about 25% of federal tax revenues.²⁵ A state oil company, Transneft, operates all of the country's oil pipelines.²⁶ As Putin argued in a January 1999 article, "The state has the right to regulate the process of the acquisition and the use of natural resources, and particularly mineral resources, independent of on whose property they are located; in this regard the state acts in the interests of society as a whole".²⁷ Putin followed through on this statement during his presidency, with one author noting that it was "marked by an extreme politicization of the energy business."²⁸ Thus, the gas sector is essentially entirely state run, and the Kremlin "controls the oil tap" via its pipeline monopoly, although numerous private oil companies do exist.²⁹

Energy, then, is clearly important to the Russian economy and state. However, what impact it may have on Russian foreign policy is by no means clear. It is to that topic which we now turn.

II: Brief background on Russian foreign policy

Between 2000 and 2007, Russian foreign policy has grown increasingly assertive abroad. In the aftermath of the September 11th terrorist attacks, many commentators in the U.S. believed that conditions were ripe for the formation of a "strategic partnership"³⁰ between the U.S. and Russia, marking the apex of U.S.-Russian relations under President Putin.³¹ In 2003 and 2004, relations grew increasingly tense, manifested by sharp disagreements over the U.S.-led invasion of Iraq and Russian meddling in the Ukrainian presidential elections of October 2004. Putin's Munich speech in February of 2007 brought these tensions into sharp relief as a result of his assertion that the U.S. had "overstepped its national borders in every way", thus "plunging the world into an abyss of permanent conflicts".³² Shortly after, numerous commentators began wondering if a new Cold War was developing between the two nations. Given that oil prices had dramatically increased over the same period of time, many linked the rise in aggression with the rise in oil prices. Indeed, the Russians themselves seem to argue that this is in fact the case. In the same January 1999 article, Putin argued that "Russia's natural resource base will not only secure the country's economic development but will also serve as the guarantor of the

²⁴ U.S. Energy Information Administration, *Country Analysis Brief – Natural Gas*.

²⁵ Ibid.

²⁶ Aron, "Russia's Oil: Natural Abundance and Political Shortages," 1-2.

²⁷ Martha B. Olcott, *The Energy Dimension in Russian Global Strategy: Vladimir Putin and the Geopolitics of Oil*, THE JAMES A. BAKER III INST. FOR PUB. POL'Y OF RICE U., at 19 (Oct 2004).

²⁸ Denisov & Grivach.

²⁹ Larsson, 30.

³⁰ Edwards, 5.

³¹ "The Big Chill."

³² Vladimir Putin, President, Russian Federation, Speech at the 43rd Munich Conference on Security Policy (Feb. 2, 2007), <http://www.securityconference.de/konferenzen/rede.php?sprache=en&id=179>.

country's international position.”³³ Sergei Lavrov, Russia’s foreign minister, recently wrote that “it would be right to say that we view our role in global energy supply as a means for ensuring our foreign-policy independence”.³⁴ However, ascertaining whether the asserted relationship actually exists requires further scrutiny.

Unfortunately, there is almost no literature currently in existence which directly addresses this subject. The relevant literature can be divided into three categories. First, there is a good deal of information regarding Russia’s energy reserves and their importance to the Russian economy, as well as their impact on other domestic institutions. Second, there is a body of work discussing Russia’s use of energy as a political weapon, mainly in the context of cutting off energy exports to nearby states. Third, there is a voluminous amount of writing on Russian foreign policy. All three bodies of literature have a role to play in assessing the linkage between oil and Russian aggression, but none of them directly address the question. Therefore, some original research combined with a synthesis of the existing corpus of knowledge is necessary to find an answer.

III: Research Methodology

In order to find out if an increase in the price of energy was linked to an increase in Russian foreign policy aggression, oil prices were correlated against a “Russian Aggression Index”. Average world oil prices were taken from the United States Energy Information Administration, at the weekly level.³⁵ Prices were manually averaged at the monthly, quarterly, semi-annual, and annual levels. Using world prices, rather than prices specific to the areas Russia exports to, is acceptable because oil is traded on “a single, integrated world market...prices are essentially set by a single world market”.³⁶ It would have been desirable to correlate aggression against natural gas prices as well, given its importance to Russia’s economy, but that proved infeasible. The primary reason is that gas, unlike oil, is not sold on a world market, but rather through long-term contracts between two entities at relatively fixed rates.³⁷ Currently, nearly all natural gas is transported via pipelines, which makes it a fundamentally different product.³⁸

The aggression index was far more difficult to create, and thus requires a more lengthy explanation. What one nation perceives as aggressive may be seen as entirely legitimate by another nation. Therefore, the index is unabashedly constructed to reflect Western interests broadly, and the United States’ interests specifically. This means that actions like Russia supplying the U.S. with intelligence to assist in the invasion of Afghanistan in 2001 would not

³³ Olcott, 17.

³⁴ Sergei Lavrov, “Containing Russia: Back to the Future?,” *Russia in Global Affairs* (Oct./Dec. 2007), <http://eng.globalaffairs.ru/numbers/21/1147.html>.

³⁵ U.S. Energy Information Administration, “Weekly All Countries Spot Price FOB Weighted by Estimated Export Volume”.

³⁶ David G. Victor & Nadejda M. Victor, “Axis of Oil?,” *Foreign Affairs* (Mar. /Apr. 2003).

³⁷ “A Snag in the Pipeline,” *The Economist*, Apr. 12, 2007.

³⁸ Larsson, 286.

count as aggressive, while Russia selling weapons to states such as Iran and Syria would. Aggression, in this framework, does not require an act to be illegal or forced; it is better thought of as Russia taking foreign policy maneuvers that have the impact of harming Western interests – intent, to some degree, is irrelevant.

A list of aggressive events was compiled by reading every *Economist* article regarding Russia from 2000 on and a Lexis-Nexis headline search of “Russia”, “Putin” or “Moscow” for *The Washington Post* and *The New York Times*, supplemented by scholarly articles on Russian foreign policy. An “event” was a foreign policy action or strong statement from a high-ranking official. A complete list of the events and their rankings can be found in the appendix.

Each event was then assigned a value between one and five, with a higher number indicating a more aggressive event. This assignment was to some degree arbitrary, but a few general guidelines were used to produce some consistency. The more an act harmed Western interests, the higher the rating. The more an act infringed on another nation’s sovereignty and impaired its ability to function as an independent entity, the higher the rating. Whether events formed part of a larger pattern also impacted the rating an event received. For instance, the April 2006 agreement between Belarus, Kazakhstan and Russia to establish a single economic space would not, in and of itself, have even made it on to the list. However, given that Russia has signed numerous other agreements with both states regarding political integration and military alliances, the economic agreement formed part of a pattern of actions which appear to indicate Russia is attempting to draw these two states into its “orbit” across several dimensions. Thus, the economic accord represented another way Russia was attempting to gain influence over these states, and increased the costs to them of deviating from the Kremlin’s desire on any given issue, which merited its inclusion on the list. The character of the state on which Russia exerted foreign policy influence also mattered, which is most evident in the case of arms sales. Arms sales were only included if they were sold to states who sponsor terrorism, as they are otherwise perfectly legitimate. Thus, sales of weapons to Sudan, Iran and Syria were given relatively high aggression values. Generally speaking, the more domestically despotic and internationally hostile towards the U.S. a given state was, the more Russian agreements with and support of those states were viewed as aggressive. Low level values (1-2) were used for certain economic acts (such as import bans and trade agreements), presidential visits to pariah regimes (Cuba, North Korea), and altering visa policy for neighboring states. Mid-range values (3-4) were used for more clearly threatening acts, and comprise the majority of events. These include arms sales to terrorist supporting states, military agreements and exercises, attempts to support separatist regions in nearby states, interruptions of energy supplies to neighboring states, severe disruption of economic relations with other states, militaristic threats, and actions taken to dramatically increase Russia’s military capacity. No score of 5 was given, as that was reserved for a full-scale military invasion of another country. 4.5 was the highest score assigned; it applied to two military incursions Russia made into Georgia to pursue Chechen rebels.

This methodology has some inherent defects that, while problematic, do not prevent it from functioning as a useful heuristic tool in understanding Russian foreign policy. First, some events may have been left out. Nevertheless, the index should be a roughly reliable estimate of the aggressive actions Russia has taken, for any event sufficiently hostile to Western interests to

qualify as aggressive under this schema is overwhelmingly likely to have been at least mentioned in one of the publications examined. Second, only changes in foreign policy were measured – a foreign policy position or activity that remained the same from 2000 to 2007 (such as the maintenance of Russian troops in Moldova) was not included, as there was no date at which a given event occurred or policy position was adopted. Third, positive events were not included. Thus, perhaps any increase in negative actions was matched by increased cooperation in other spheres. A cursory look at Russian foreign policy, however, indicates that this is unlikely to be the case. Moreover, even if there was an increase in cooperation, that does not deny that the aggressive acts still caused injury to Western interests. Fourth, it is not always clear who carried out certain aggressive actions. For instance, the murder of Alexander Litvinenko in London in November 2006 may not have been carried out by the Russian state, the same goes for the cyber-attacks on Estonia in April 2007. Nevertheless, if there was sufficient evidence to suggest the activity was more likely than not directed by the Kremlin, it was included on the list. Fifth, the list obviously leaves out events which occurred in secret and have not yet been uncovered – intelligence activities, covert weapons sales and other similar actions. Sixth, the sources from which the index was constructed were English-language, Western publications. There may be some selection bias as a result, with Russian activity getting increasing coverage as it became more aggressive. Thus, the results below need to be taken with a large grain of salt. Nevertheless, none of these flaws prevent a rough, broad picture of Russian foreign policy from being constructed. A few events left out or misattributed are unlikely to dramatically alter the overall assessment of Russian foreign policy.

IV: Research Results

A total of 95 events comprised the “aggression index”. An ordinary, single variable regression was run correlating current (“spot”) oil prices to the index, as well as to the raw number of events. This was done at the monthly, quarterly, semi-annual and annual level. The data cover January 2000 through December 2007. Oil prices were obtained from the Energy Information Administration.³⁹ The results are available in table one.

A brief note on what the statistics mean is necessary at this point. The correlation coefficient measures how much a change in the independent (explanatory) variable (in this case, spot oil prices) will change the dependent variable (in this case, aggression). A correlation coefficient of .1 indicates that a change of 10 in the independent variable will increase the dependent variable by 1. The R squared value is the coefficient of determination. Essentially, it shows how much of the change in the dependent variable is caused by a change in the independent variable. An R squared value of .8 indicates that 80% of the change in the dependent variable is due to change in the independent variable. The P value is the measure of statistical significance; a good way to think about it is that the P value represents the odds that a given correlation is due to chance.

³⁹ U.S. Energy Information Administration, “*Weekly All Countries Spot Price FOB Weighted by Estimated Export Volume*”.

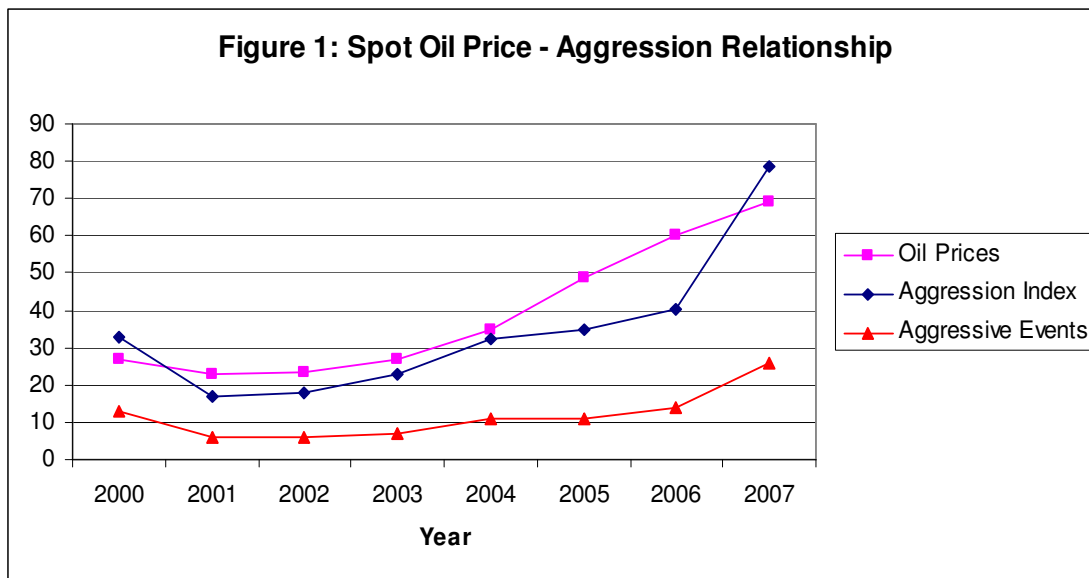
Thus, a P value of .1 would indicate that there is a 10% chance that the correlation is simply due to random variance. Generally in statistics, a P value less than .01 is always accepted as statistically significant, whereas one less than .05 may not be viewed as statistically significant, depending on how rigorous the statistician intends to be in assessing the data. For the purposes of this paper, a P value less than .01 will be treated as significant, one less than .05 will be treated as “skeptically significant”.

Data Measured	Correlation Coefficient	R Squared Value	P Value
Monthly - Index	.0785	.1567	.00007
Monthly - Events	.0255	.1538	.00008
Quarterly - Index	.2468	.4529	.00002
Quarterly - Events	.0799	.4602	.00002
Semi-Annually - Index	.5158	.6220	.0003
Semi-Annually - Events	.1672	.5603	.0009
Yearly - Index	.9544	.7656	.0044
Yearly - Events	.3079	.7155	.0081

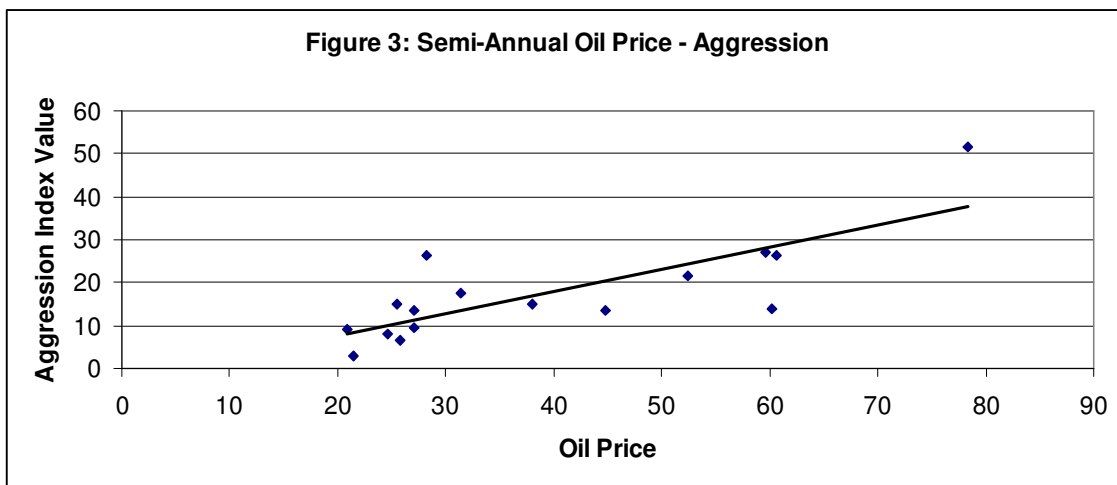
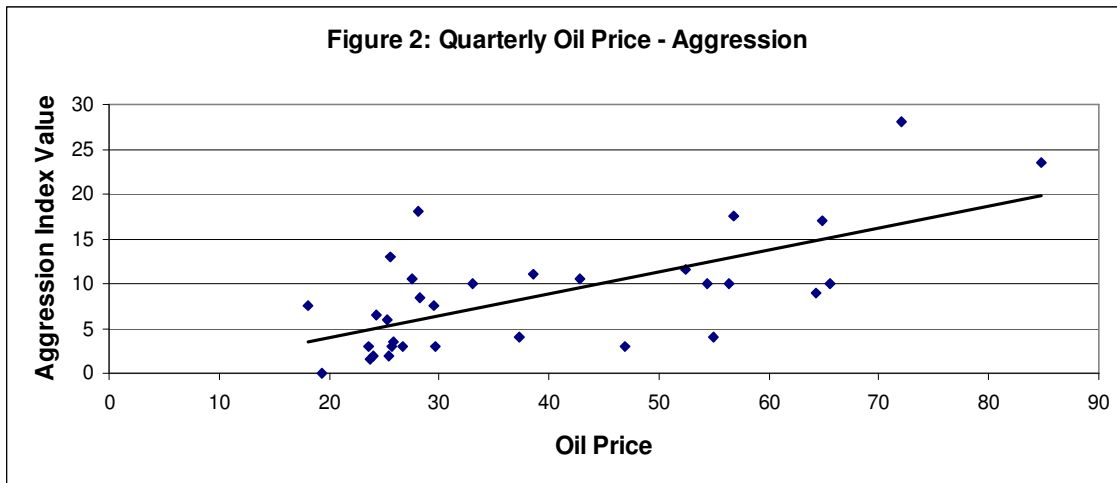
The first notable fact is that the difference in the R-squared value between the index and the number of events is marginal at the monthly and quarterly level, but not at the semi-annual and yearly level. The two main reasons for this are that the second halves of 2000 and 2007 were unusually aggressive, given the level of oil prices. This can be seen in figure 1 below, where in both cases the aggression index for the year is above the price line, rather than below it. The reason for this unusual activity in 2000 is unclear; in the second half of 2007 it was likely due to aggressive posturing in the run-up to domestic parliamentary and presidential elections. Irregardless, this variance only had a marginal impact on the monthly and quarterly regressions, because of their larger sample size, but did affect the yearly and semi-annual regressions.⁴⁰

⁴⁰ At this point, a brief discussion of outliers is prudent. There are outliers present, but their impact is marginal. This is because there are essentially three outlier time periods that functionally balance each other out. The first is the second half of 2000, where aggression occurs far more often than it should given the low oil prices. The second is the second half of 2006, where aggression occurs less often than it should given high oil prices. The third is the second half of 2007, where aggression occurs more often than it should given high oil prices. The net impact of removing these three outlying periods, when there is an impact, is that the correlation becomes more robust, and oil prices are more tightly linked to aggression abroad. Given this, there are several reasons to leave the outlying time periods in. First, the impact is relatively marginal, so excluding the outliers is not particularly critical. Second, because the remaining measurements correlate varying factors to aggression abroad, the outliers will remain the same in each case, because the value of the dependent variable (ie. the index or raw number of events) does not change based on which independent variable is being used. Because the outlier is non-unique amongst variables, it is functionally irrelevant in the comparisons that are being made. Third, the notion that time periods of foreign policy decision-making can be outliers rests on relatively shaky ground. Given that only one country is being examined over a limited time period, the idea that a half a year’s worth of foreign policy decisions can be dismissed as an anomaly is dubious. Therefore, the outliers are left in for all the analyses.

Nevertheless, at all levels there is a strong relationship between the price of oil and both the index and the number of events. At the yearly level, there is a robust relationship between the price of oil and aggression, with oil’s impact accounting for 76% of the variability in Russian aggression. At the quarterly and semi-annual levels, the relationship is weaker but still strong, with respective percentages of 62% and 46%. Strikingly, at nearly all levels of analysis, the P value is well below .01. It is highest at the yearly level, which is to be expected, again due to small sample size. Finally, the relationship is at its weakest at the monthly level, although it still has some influence. This is also to be expected, because there were numerous months that lacked aggressive acts entirely. Figures two and three present an alternative form of viewing the same data, and underscore the same point – there is an unmistakable relationship present between the price of oil and Russian assertiveness abroad.



The results, frankly, are impressive. A \$1.05 increase in oil prices at the yearly level will lead to an additional “point” of aggression; a \$3.25 increase will lead to an additional event. At the semi-annual level, the respective numbers are \$1.93 and \$5.98, at the quarterly, \$4.05 and \$12.51. Given that the price of oil rose from a nadir of \$17.37 in December 2001 to \$87.62 in December 2007, it is clear that oil prices have had a huge impact on Russian aggression abroad. This is especially the case when one takes into consideration the high level of variance in foreign policy – a given foreign policy action is as much the product of circumstance and a response to events abroad as a carefully considered long-term decision. Therefore, the fact that oil prices have a statistically significant, relatively large impact on foreign policy is notable.

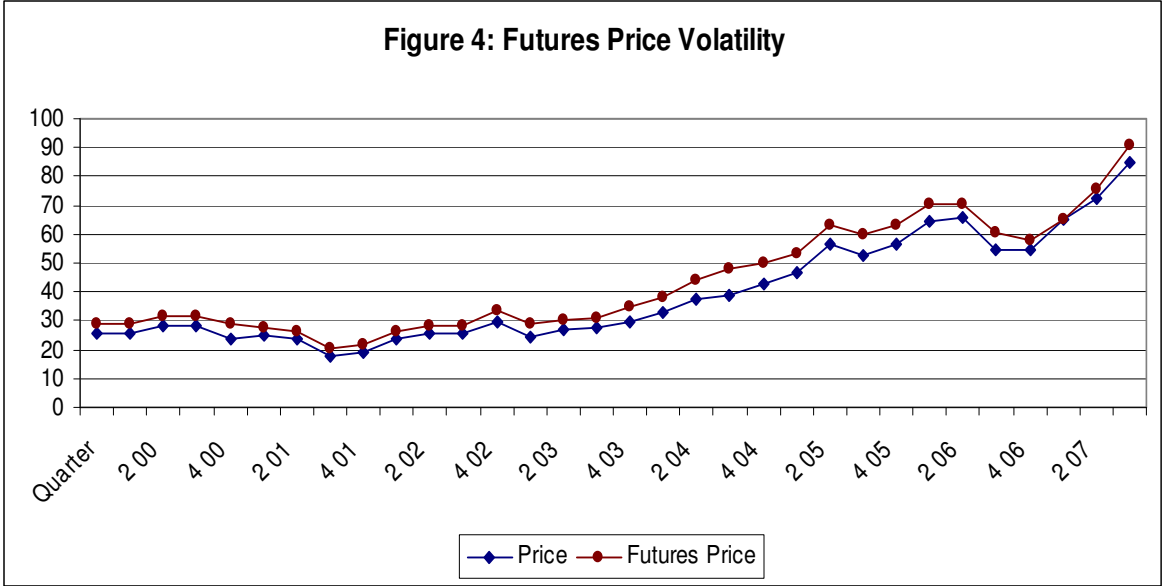


The next correlation is of both the number of events and the index against the future's price of oil (the price at which commodity speculators value oil), rather than the price oil was currently trading at. The data was again obtained from the Energy Information Administration, and the results are available in table two.⁴¹ The main difference here is that all three metrics of statistical fit decrease marginally, compared to table one. The one exception is at the yearly level, where the values drop more noticeably. Indeed, the yearly-events metric is no longer statistically significant at the .01 level. This result is interesting because one would expect policymakers to make decisions based on what they think the oil market will look like tomorrow, rather than yesterday. Such a paradigm makes more common sense, and thus should reflect aggression more accurately.

⁴¹ U.S. Energy Information Administration, *NYMEX Futures Prices*, http://tonto.eia.doe.gov/dnav/pet/pet_pri_fut_s1_m.htm.

Table 2 – Futures Price – Aggression Correlation			
Data Measured	Correlation Coefficient	R Squared Value	P Value
Monthly - Index	.0728	.1473	.0001
Monthly - Events	.0236	.1442	.0001
Quarterly - Index	.2309	.4333	.00004
Quarterly - Events	.0748	.4401	.00003
Semi-Annually - Index	.4783	.5930	.0005
Semi-Annually - Events	.1547	.5321	.0013
Yearly - Index	.8811	.7123	.0084
Yearly - Events	.2828	.6016	.0145

The fact that it does not is likely due to the futures market’s increased volatility compared to the spot price market, given that it is driven by speculators making predictions about what they think will happen to the price of oil, rather than by the trading of actual oil. For instance, from January to June 2001, actual oil prices increased from \$23.99 to \$25.28, while futures prices dropped from \$31.86 to \$28.72. This can be seen in figure two – if futures prices accurately represented actual prices in the future, the trend line representing futures prices would stay a consistent distance above the current oil price line. The fact that it does not indicates that it is a volatile market based on uncertainty. Nevertheless, even with the increased volatility, the futures index still does a decent job of predicting Russian aggression – all values are still statistically significant (1at the .05 level, the rest at the .01 or .001 level), and the R squared value remains decently robust.



A common problem in using linear regressions is that there could be omitted variables which are truly causing the change, which the dependent variable is merely a proxy for. It is difficult, however, to think of what could be an omitted variable in this case. Oil’s price is obviously a proxy for economic gain in Russia, but that is to be expected and is entirely consistent with the

hypothesis that appreciation in the price of oil leads to an increase in aggression abroad. It seems unlikely that the rise in oil prices is truly measuring or correlated with something else that is causing an increase in Russian aggression. The only likely intervening variable was popular opinion. Regressions of popular opinion against the aggression index were run. Popular opinion data came from the Levada center, which conducts monthly polls asking whether or not individuals approve of Putin.⁴² As table four indicates, none of the results are statistically significant. It can therefore be concluded that popular opinion is not the cause of the recent spike in Russian aggressiveness abroad.

Data Measured	Correlation Coefficient	R Squared	P Value
Opinion - Monthly	.0897	.0188	.1825
Opinion - Quarterly	.4306	.0974	.0820
Opinion - Biannually	.9997	.1574	.1282
Opinion - Yearly	2.612	.3093	.1523

To further understand how oil may affect Russian foreign policy, I decided to correlate Russian foreign exchange holdings against the aggression index, and compare this to the results from spot oil prices. The foreign exchange holding data came from the Russian central bank⁴³ and the IMF.⁴⁴

Data Measured	Correlation Coefficient	R Squared	P Value
Exchange - Monthly	.0114	.1637	.00004
Oil - Monthly	.0785	.1567	.00007
Exchange – Quarterly	.0353	.4596	.00002
Oil – Quarterly	.2468	.4529	.00002
Exchange – Semi Annually	.0711	.6061	.0004
Oil – Semi Annually	.5158	.6220	.0003
Exchange – Yearly	.1385	.8521	.0001
Oil - Yearly	.9544	.7656	.0044

⁴² Levada Center, *Presidential Performance*, http://www.russiavotes.org/president/presidency_performance.php?S776173303132=3085f6892caa912989b672f788f64291.

⁴³ The Central Bank of the Russian Federation, *International Reserves of the Russian Federation*.

⁴⁴ International Monetary Fund, *Time Series Data on International Reserves and Foreign Currency Liquidity Official Reserve Assets*, <http://www.imf.org/external/np/sta/ir/8802.csv>.

These results are also interesting. At each level of aggregation oil prices and foreign reserves have about the same effectiveness at explaining how aggressive Russian foreign policy is. The only exception is at the yearly level, where foreign exchange reserves do a markedly better job at predicting outcomes than oil prices. This occurred because the average value of foreign exchange holdings (ie. the total amount of currency holdings each month divided by twelve) in 2007 increased far more compared to 2006 than the average value of oil did. The average value of foreign exchange holdings in 2007 was \$395.76 billion, compared to \$247.6 billion in 2006. Oil's average value, in contrast, only increased from \$60.4 to \$69. Since the aggression index also increased sharply – from 40.5 in 2006 to 78.5 in 2007 – it had a closer correlation to the level of foreign exchange holdings than the price of oil.

Nevertheless, broadly speaking, oil prices and the level of current exchange holdings have about the same impact on Russian foreign policy. At the yearly level, a \$7.22 billion increase in foreign exchange holdings will lead to an additional point on the aggression index. Since Russian foreign exchange holdings have grown from \$13.1 billion in January 2000 to \$467.2 billion in December 2007, the effect is quite large. Given that energy sales comprise a majority of Russian foreign exchange earnings, this relationship is unsurprising. The conclusion, then, appears to be unmistakably clear: the increase in oil prices is directly related to the increase in Russian foreign policy aggression. The next step is to figure out the mechanisms responsible for this linkage.

V: Potential linkages of oil to an increase in foreign policy aggression

What are the specific mechanisms by which the increase in oil prices has led to an increase in Russian aggression abroad? There are at least eight potential avenues by which the increase in the price of oil could alter Russian foreign policy decision-making. First, the economic growth that oil brought about could lead to an increase in domestic popularity, freeing the Kremlin to take a more assertive stance abroad. Second, the economic benefits have led to a paying down of international debt, which could free the state from international constraints. Third, the revenue could be used to increase military spending, a key axis of international power. Fourth, the revenue could be used to increase spending on foreign policy as a whole, allowing more leverage abroad. Fifth, the reliance upon oil has often been labeled a “resource curse”, as it tends to increase the chances of a government becoming authoritarian. There is also a body of literature which argues that a more authoritarian state is more likely to engage in aggression abroad. The combination of these two factors could have an impact. Sixth, the higher prices could increase the effectiveness of the use of energy exports as a political tool. The dependence of other states, mainly in Europe, on Russian energy may make them less likely to criticize Russian decisions, and thus increase Russia's freedom of action abroad. Seventh, an increase in oil prices could lead to an increased ability for Russia to economically pressure its neighbors. Finally, there may be no specific individual factor that has led to an increase in aggressiveness abroad, but rather an aggregate of factors that has led to an increase in “confidence” amongst the Kremlin elite.

1. Popular Opinion

Economic growth has undoubtedly done much to improve Putin's popularity. Since January 2000, his popularity has never dipped below 60%, and most of the time remained in the 70s – an incredible feat when compared with most Western politicians.⁴⁵ Presumably, a lack of domestic opposition allowed him a freer hand in determining foreign policy and enabled him to sideline dissenting viewpoints within the Kremlin.

However, it is unlikely to have had much of an impact on foreign policy decision-making. As shown above, it does not have a statistically significant correlation with foreign policy aggression. This makes sense, given that popular opinion was uniformly supportive of Putin throughout the entirety of his presidency. Thus, this factor can be dismissed.

2. Fiscal Resources (Debt Repayment)

Russia has broken free of its large debt to the West after the economic retraction of the 1990s, which culminated in the 1998 financial crash. Russia has gone from holding only \$6.6 billion in foreign exchange reserves and owing the IMF alone \$16.8 billion in October 1999 to possessing \$467 billion in foreign exchange reserves and paying off its entire debt to the IMF by 2006.⁴⁶

This development has probably had some impact, but the level is impossible to quantify. Debt repayment may have had a significant impact on Russia's use of economic tools abroad, because with little foreign debt it has much less to fear economically from retaliation by Western states than it did in the past. This is because if Russia does not need to obtain credit from the West, it can afford to look more hostile in Western eyes without fearing negative economic impact.

3. Fiscal Resources (Military Rearmament)

Russia has been spending significant sums of money to reverse the decline of its armed forces during the 1990s. This decline was indeed drastic – between 1992 and 2000 the Russian armed forces received no combat training whatsoever, due to a lack of funds.⁴⁷ Between 2001 and 2007 Moscow increased spending on the armed forces by 300%.⁴⁸ Training has increased substantially as a result. By 2003, pilots had more than doubled their flying time, and “overall, the frequency of training exercises had increased significantly”.⁴⁹ Russia also decided to

⁴⁵ Levada Center.

⁴⁶ The Brookings Institution, 7; The Central Bank of the Russian Federation.

⁴⁷ Dale R. Herspring, “Vladimir Putin and Military Reform in Russia,” 14:1 *Eur. Sec.* 137, 139 (Mar. 2005).

⁴⁸ Alexei Arbatov, “Is a New Cold War Imminent?,” *Russ. in Global Aff.*, (Jul. / Sept. 2007), <http://eng.globalaffairs.ru/numbers/20/1130.html>.

⁴⁹ Dale R. Herspring, “Undermining Combat Readiness in the Russian Military,” 1992-2005, 32:4 *Armed Forces & Soc’y*, 513 (July 2006) , 524.

modernize its nuclear arsenal, with a November 2004 announcement of the SS-27 strategic nuclear missile, supposedly superior to any in the world.⁵⁰

However, even with all this new spending, Russia's armed forces are still only a shadow of their former self. Outlays, adjusted for purchasing power parity, are more than eleven times less than U.S. spending on defense.⁵¹ Rearmament is taking place at a slow rate. By 2015, 70-80 of Soviet era equipment will be worn out, and re-equipment of the army will only be completed by 2025.⁵² The deputy commander of the air force complains that no new planes will be received until 2010.⁵³ The commander of the Black Sea Fleet believes that within 5-7 years the navy will be barely operational, and procurements for the navy were cut in 2004.⁵⁴ The nuclear arsenal has deteriorated as well – over 80% of Russia's silo-based ICBM's have exceeded their service lives, and the numbers of nuclear submarines and bombers have plunged as well.⁵⁵ Though training has improved, Russian pilots in 2003 received only 6-8 hours per year, far below the 150 hours that NATO pilots receive.⁵⁶ Thus, while the free fall in the military's quality has been halted and in some sectors reversed, "fifteen years after the fall of the Soviet Union, the Russian military remains impoverished, demoralized, and largely ineffective".⁵⁷ The partial revival has likely had some impact on Russia's ability to assert itself abroad, but given the immense difficulties the military still faces, it is unlikely to have been the key factor.

4. Fiscal Resources (Foreign Policy Budget)

Fiscal resources could also be directed to the general foreign policy budget. This would give the state increased information and personnel with which to exert influence abroad. Allocations did indeed increase substantially between 2000-2003, and then stabilized at levels well above that of the late 1990s.⁵⁸ However, given that the peak in foreign policy expenditures was in 2001 – well before the peak in aggression in 2007 – it seems unlikely that this spending could have a truly significant impact on Russia's ability to act abroad.

5. Resource Curse + Democratic Peace Theory

This line of argumentation regards the impact Russia's energy exports have on domestic institutions, and the impact changes in those institutions may have on foreign policy decision-making. Oil has had an impact on two sets of domestic institutions – the overall level of

⁵⁰ Stuart D. Goldman, "Russian Political, Economic, and Security Issues and U.S. Interests," *Congressional Research Service*, (May 31, 2007), 18.

⁵¹ Leon Aron, "U.S.-Russia Relations Through the Prism of Ideology," *Russia in Global Affairs*, (July / Sept. 2006), <http://eng.globalaffairs.ru/numbers/16/1042.html>.

⁵² V. V. Vorobyov & A.I. Pozharov, "Russia's Military-Financial Policy," 14:3 *Mil. Thought*, 139, 149-150 (2005).

⁵³ Herspring, "Vladimir Putin and Military Reform in Russia," 139.

⁵⁴ *Ibid.*

⁵⁵ Keir A. Lieber and Daryl G. Press, "The Rise of U.S. Nuclear Primacy," *Foreign Affairs*, (Mar. / Apr. 2006).

⁵⁶ Herspring, "Vladimir Putin and Military Reform in Russia," 139.

⁵⁷ Zoltan Barany, "The Politics of Russia's Elusive Defense Reform," 121:4 *Political Science Quarterly* 597, 598 (2006).

⁵⁸ Ivan Safranchuk, "An Audit of Russia's Foreign Policy," *Russia in Global Affairs*, (Jan./Mar. 2007), <http://eng.globalaffairs.ru/numbers/18/1094.html>.

democracy in the country, and the amount of power centralized in the Kremlin. In turn, these changes have had some degree of impact on Russian foreign policy in two ways. First, the increase in authoritarianism may be generally correlated with an upswing in aggression abroad. Second, centralization of power in the Kremlin has enabled Putin to more effectively carry out his foreign policy agenda.

Democratic backsliding has been great under Putin. In 2004, Putin required that all Duma (parliament) deputies be elected by parliamentary list.⁵⁹ The requirements for a party to get on ballot are difficult to meet – the collection of 200,000 signatures, no more than 10,000 of which can be from any one region, or a deposit of around \$1.3 million.⁶⁰ Moreover, starting in 2007, a new election law raises the threshold for entry to the Duma from 5% to 7%, effectively shutting out small parties.⁶¹ The FSB (successor to the KGB) has cracked down on non-governmental organizations and human rights activists.⁶² The independent media were also muzzled, beginning in 2000.⁶³ Overall, “during Putin’s first tenure [2000-2004], democratization dramatically moved in a negative direction”.⁶⁴

A problem with this argument, however, is that the level of “democracy” in Russia may not have shifted profoundly between 2000 and 2007. This can be seen by looking at Freedom House scores for Russia. Freedom House compiles an annual score of between 1 and 7 for nearly all countries, with 1 representing the most free and 7 the most repressive. Russia scored a 4.5 in 1999, 5 from 2000 to 2003, and then a 5.5 from 2004 to 2006.⁶⁵ While this shift is not particularly dramatic, it is still significant – Russia moved from “partly free” in 1999 to “not free” in 2004. When combined with a look at the substantive changes enacted under Putin, it is unmistakable that democratic backsliding has occurred.

Much of this increase may be related to Russia’s energy exports. A substantial reliance upon natural resource exports for economic growth is strongly correlated with an increase in authoritarianism. As one author notes, “A one percent increase in [a county’s] resource dependence...leads to a nearly 8 percent increase in the probability of authoritarianism.”⁶⁶ This is not an isolated finding: “Several studies exploring this relationship have found that mineral wealth not only impedes democratic transitions but also...promotes the consolidation of authoritarian regimes”.⁶⁷ Of the 20 major oil exporters in 2000, only two (Mexico and Venezuela) could be classified as democracies.⁶⁸

⁵⁹ Leon Aron, “Institutions, Restoration and Revolution,” *Russia’s Revolution*, (2005), 238.

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Timothy J. Colton & Michael McFaul, “Putin and Democratization,” *Putin’s Russia*, (Dale R. Herspring ed., 2005) 22.

⁶³ Masha Lipman and Michael McFaul, “Putin and the Media,” *Putin’s Russia*, (Dale R. Herspring ed., 2005) 55.

⁶⁴ Ibid.

⁶⁵ Freedom House, *Freedom in the World*, <http://www.freedomhouse.org/uploads/fiw/FIWAIScores.xls>.

⁶⁶ Konstantin Sonin, “The Unbearable Lightness of Petrodollars,” *Russia in Global Affairs*, (Aug. / Sept. 2004), <http://eng.globalaffairs.ru/numbers/8/584.html>.

⁶⁷ Erika Weinthal & Pauline J. Luong, “Combating the Resource Curse: An Alternative Solution to Managing Mineral Wealth,” *4:1 Persp. on Pol.* 35, 36 (Mar. 2006).

⁶⁸ Ibid.

There has also been a restoration of power to the center. In May of 2000 a decree established seven super-regions (federal districts) accountable to Moscow, super-imposed on the 89 units of the Russian Federation.⁶⁹ Each federal district was to be headed by a plenipotentiary appointed by the President.⁷⁰ Putin has tightened central control over federal agencies, switched the method of selecting regional governors from election to presidential appointment, and increased the amount of tax revenue directed to Moscow vis-à-vis the regions.⁷¹ As one author puts it “If there is an overarching theme to the Kremlin’s policies, it is the exploitation of institutional loopholes and ambiguities in order to erode checks and balances and replace the separation of powers with what President Vladimir Putin likes to call “the vertical of power””.⁷²

Oil prices are responsible for some of the institutional changes that have occurred as far as centralization goes. This is because the authority the regions had during the 1990s was mainly de facto rather than de jure – the federal government lacked the revenues to pay salaries of federal employees in the region. In response, regional governments picked up the slack and thereby took operational control of federal agencies in the regions.⁷³ The increase in revenue available as a result of high oil prices has allowed Putin to reverse this situation.

The transition away from democracy may be partially responsible for the increase in Russian assertiveness, given that authoritarian regimes tend to be more aggressive abroad. This is commonly known in political-science literature as the “democratic peace theory”. The weak version of this theory holds that democracies are less likely to go to war with one another, and this is a generally accepted scholarly consensus. However, this version is irrelevant for this paper, because Russia did not conduct violent actions outside of its own territory (except for a few brief incursions into Georgia chasing down Chechen rebels). The strong version of the democratic peace theory is that democracies are more likely to resolve disputes via negotiation and compromise, rather than by coercive or aggressive action, and is definitely relevant, although far more disputed than its weaker cousin. Note that both of these theories only apply to democracies interacting with other democracies. This still has relevance for Russia, as many of the states with which it has had disputes and acted aggressively towards are democracies (Latvia, Lithuania, Estonia, Poland, Czech Republic, Japan, the U.S., the UK, Canada, and Sweden; arguably Georgia, Ukraine, and Moldova).

There are two potential ways for the democratic peace theory to operate in practice – structural constraints and normative constraints. Structuralist explanations argue that the structure of a democracy militates against aggressive action abroad – leaders do not want to instigate conflict against other states because they fear a backlash from voters.⁷⁴ This assumes, of course, that voters are opposed to such conflict. It also presumes that the backlash from any given aggressive event will be sufficient to cause a large enough drop in the leader’s popularity

⁶⁹ Colton & McFaul, 18.

⁷⁰ Ibid.

⁷¹ Nikolai Petrov & Darrell Slider, “Putin and the Regions,” *Putin’s Russia* (Dale R. Herspring ed., 2005) 243.

⁷² Aron, “Institutions, Restoration and Revolution”, 237.

⁷³ Petrov & Slider, 241-242.

⁷⁴ See Bear F. Brauxmoller, “Deadly Doves: Liberal Nationalism and the Democratic Peace in the Soviet Successor States,” 41:3 *Int’l Stud. Q.* 375 (Sep. 1997).

to present a credible threat to the leader's ability to remain in power. Given the uniformly high popularity ratings of Putin throughout his administration, this particular explanation seems unlikely – it is difficult to envisage aggressive acts abroad short of war significantly harming his popularity (indeed, even the war in Chechnya failed to significantly harm his opinion ratings). This explanation can likely be dismissed.

The normative argument may have more force. It holds that leaders in a democracy become accustomed to acting within a framework where they reconcile differing interests using methods short of coercion.⁷⁵ It also suggests that a set of procedures are used for dispute reconciliation, which can take a wide variety of forms.⁷⁶ Essentially, politicians utilize means similar to those they use in solving domestic quarrels for solving international disputes with other democracies. Thus, “the presence of shared democratic norms will directly facilitate the process of negotiation and, hence, the prospects of mutually agreeable settlements of interstate disputes”.⁷⁷ Of course, this argument has a few flaws. First, it is difficult to tell if a democratic state would have acted in a less hostile fashion in any given situation— perhaps negotiations would have failed anyway, or the perceived interest at stake would be sufficiently great for the democratic state to respond in the same fashion. A second, related, response is that states treat their foreign policy separately from the domestic structure, that “democracies do not have a powerful inclination to treat each other with trust and respect when their interests clash. Instead, they tend to act like any other pair of states, bargaining hard, issuing threats”.⁷⁸

Unfortunately, there is insufficient space in this paper to thoroughly assess whether norms have an impact on negotiated problem solving in the international arena, suffice it to say that the evidence is mixed and contested. Nevertheless, the argument appears to gain some traction when one looks at the ways in which Putin has attempted to settle disputes with his democratic neighbors. In many cases, rather than engaging in serious negotiations, the Russian state has applied punitive economic sanctions and threatened the use of force. For instance, in April of 2007 Estonia removed a World War Two memorial from its capital to a military cemetery. Russia's response, rather than attempting to negotiate a settlement, was to hire thugs to blockade the Estonian assembly in Moscow, launch cyber-attacks on Estonian computing infrastructure, and cut off oil and coal exports.⁷⁹ Russia downright reneged in 2003 on a 1999 agreement to vacate two military bases in Georgia, saying it would need at least ten years to withdraw from them.⁸⁰ Russia intervened in Ukraine's 2004 presidential elections to support its favored candidate against the pro-Western Viktor Yushchenko.⁸¹ It is, to say the least, rather difficult to imagine contemporary Western democracies carrying out similar actions in other democratic

⁷⁵ William J. Dixon & Paul D. Senese, “Democracy, Disputes and Negotiated Settlements,” 46:4 *J. of Conflict Resol.* 547, 548 (Aug. 2002).

⁷⁶ *Ibid.*

⁷⁷ *Ibid.*, 549.

⁷⁸ Sebastian Rosato, “The Flawed Logic of Democratic Peace Theory,” 97:4 *Am. Pol. Sci. Rev.* 585, 590 (Nov. 2003).

⁷⁹ “The Right to be Wrong,” *The Economist*, May 3, 2007.

⁸⁰ Dale R. Herspring & Peter Rutland, “Putin and Russian Foreign Policy,” *Putin's Russia*, 283 (Dale R. Herspring, ed., 2005).

⁸¹ Celeste A. Wallander, “Russian Transimperialism and its Implications,” 30:2 *Wash. Q.* 107, 112, 114 (Spring 2007).

states. Anecdotally, then, the increase in authoritarianism may account for some of the increase in Russian aggression abroad.

Centralization may also be responsible for the increase in aggression abroad. It has markedly increased Moscow's ability to impose its will upon the rest of Russia, and also concentrated much power in the hands of the Kremlin. This has foreign policy implications: "By centralizing foreign policy decisionmaking as a key element of what he terms "strengthening the power vertical," Putin has effectively removed discussions about the principles underpinning foreign policy from the pressures of politics. The centralization of foreign policymaking in the Kremlin has allowed Putin to impose a fairly coherent vision of the national interest in a way that was not consistently possible during the Yeltsin-Primakov years".⁸² The lack of centralization in the first few years of Putin's presidency "does much to explain the seeming ease with which Putin previously accepted U.S. decisions ... that a weakened Russia had little leverage to prevent."⁸³

In sum, then, two distinct lines of argumentation can be noted here. First, oil has played a role in increasing the level of authoritarianism, which in and of itself may lead to an increase in aggression abroad. Second, oil has played a large role in centralizing the state. This has given the Kremlin the ability to more effectively implement its foreign policy principles, which is a necessary condition for enacting an aggressive foreign policy. The only problem with these arguments is that they do not explain the high level of aggression in 2000 relative to 2001 and to a lesser extent 2002/2003. Therefore, while they may tell part of the story – particularly the rise in aggression after 2003 – they do not in and of themselves constitute a complete explanation.

6. Energy lever dampens European resistance

Russia is a major energy exporter to Europe. It has also shown its willingness to shut off energy exports in the case of political disagreements, as happened to Belarus in February 2004 as well as Ukraine and Moldova in January 2006. As energy prices rise, such shut-offs may become more effective, as it becomes more expensive and difficult for nations to find alternative sources. Therefore, those states may be less likely to criticize Russian foreign policy out of fear of provoking an energy disruption.

However, this theory has several problems. First, all of the energy shut offs have been short term (a few days or weeks). Thus, the issue is not one of cost but rather of simply not having vital energy available, regardless of expense. Even if oil were only \$10 a barrel, it would be impossible to come up with alternative supplies in such a short span of time, and thus such a cut-off would still have a dramatic impact. Second, Russia's fiscal stability is dependent on Europe purchasing energy resources – as noted above, Gazprom provides the state with about 25% of its tax revenues.⁸⁴ Switching off the gas will therefore "never make commercial sense".⁸⁵ While

⁸² Jeffrey Mankoff, "Russia and the West: Taking the Longer View," 30:2 *Washington Quarterly* 123, 125 (Spring 2007).

⁸³ *Ibid.*, 127.

⁸⁴ U.S. Energy Information Administration, *Country Analysis Brief – Natural Gas*.

⁸⁵ "A Bear at the Throat," *The Economist*, April 12, 2007.

political interests may override commercial ones, this at least provides something of a check on Russian use of the energy lever. Third, repeated use of this lever will dramatically reduce Russia's reliability as an energy supplier.⁸⁶ This would sharply increase the incentives for states to develop alternate sources of energy, harming Russian interests in the long run.⁸⁷ This leads many analysts to conclude that "Russia has been a rather reliable supplier of energy to Western Europe, even during the peaks of the Cold War."⁸⁸ Fourth, use of the energy lever can cause transit states (states through which pipelines go on to third countries) to retaliate. For instance, if Russia shuts off the gas flow to the Ukraine, it would not shut off all the gas because much goes on through the country to Western Europe.⁸⁹ The transit state can then siphon the gas destined for more distant countries, both reducing the effectiveness of the energy lever and causing Russia more political problems. This is indeed what happened in the January 2006 gas cut-off to the Ukraine.⁹⁰

Overall, then, it is debatable as to whether or not Russia will actually use the energy lever. Regardless, it is difficult to see how alterations in oil prices would have more than a marginal impact on the lever's effectiveness, except insofar as more expensive oil reflects a tighter world market for energy, which in turn indicates that alternative suppliers of energy are unavailable and thus real energy diversification is impossible. Thus, while the energy lever remains a potent, if double-edged, tool for Russia, its effectiveness has little to do with the cost of energy, and thus holds little relevance for an assessment of whether the increase in oil prices is responsible for an increase in foreign policy aggression.

7. Economic Power

Russia's dramatic economic gains in the past few years may account for the increase in aggression in the economic sphere. This mechanism likely functions in two ways. First, increased economic capacity means Russia is hurt less when it imposes trade embargoes on neighboring states – the harm becomes asymmetric, with Russia able to soften the blow because it has the fiscal resources to purchase from elsewhere, while economically challenged nearby states (Moldova, Georgia, the Ukraine, etc.) do not have those resources. This makes it net-advantageous to Russia to apply fiscal sanctions, even though in absolute terms harm is done to Russia's economy as well. Second, the increase in oil prices may make Russia more attractive to prospective trade partners. This may account for many of the trade deals Russia has secured with other nearby states (Uzbekistan in 2004, Kazakhstan and Belarus in 2006, Armenia in 2006, Kazakhstan and Turkmenistan in 2007, etc.). Increased assets give Russia more leverage and bargaining power to persuade states to enter into economic arrangements with Russia. This has certainly enhanced its ability to effect change abroad.

⁸⁶ Larsson, 13.

⁸⁷ *Ibid.*, 280.

⁸⁸ *Ibid.*, 14.

⁸⁹ *Ibid.*, 277.

⁹⁰ *Ibid.*, 206-207.

8. Confidence

This is really just a catch-all category, should other explanations prove insufficient. The basic idea is that the Russian foreign policy elite simply feel more powerful and confident, given that they have more resources to work with, and so are increasingly willing to act assertively abroad. Essentially, some combination of the above-referenced mechanisms has had a synergistic effect, emboldening those who determine Russian foreign policy. As one analyst put it, “I would describe the mindset right now amongst the Russian political elite as infused with ‘petroconfidence’”.⁹¹ Given the lack of any other clear causal trend to fully explain the high level of aggression in 2000 relative to 2001 and 2002, and then the 2003-2007 upturn, this is a likely cause of Russia’s increase in aggression.

Overall, then, oil appears to have increased Russia’s aggression by several routes: debt repayment, military spending, increased authoritarianism, increased centralization, increased economic leverage, and an overall mindset of “petroconfidence” have all had some level of impact on increased Russian aggression abroad. The increase in the foreign policy budget may have had a very marginal impact. The energy lever and popular opinion have probably had no impact. An excellent line of further research would be to delve more specifically into each of these factors, examining primary as well as secondary source data, to try to pin down more specifically what about oil leads to this increase in aggression. Unfortunately, a simple list of factors that have “some” influence may be the best that can be had, given that Kremlin foreign policy decision-making is something of a black-box – much information remains classified, discussions are largely secret, and decisions are reached by a relatively small cadre of high-ranking individuals. Nevertheless, the effort would be worthwhile, even if it were only to disprove some of the potential causes listed here.

VI: Alternative Hypotheses

There are some potential alternative reasons which may account for the increase Russian aggression. First, the war in Chechnya has died down substantially, reducing its strain on the Russian military as well as international criticism of Russia’s actions there. Second, the United States has come into increasing difficulties abroad, largely due to the wars in Iraq and Afghanistan. Third, perhaps Russian foreign policy has undergone some type of paradigm shift that has made it increasingly hostile.

1. “Victory” in the Chechen War

The first potential alternative cause is a sharp reduction in violence in Russia’s restive province of Chechnya, where an armed insurgency flared from 1999 to 2006, and still flickers

⁹¹ Lionel Beehner, “Russia’s Energy Disputes,” *Couns. on Foreign Rel.*, (Jan 3, 2007), http://www.cfr.org/publication/12327/russias_energy_disputes.html?breadcrumb=%2Fregion%2Fpublication_list%3Fid%3D334%26page%3D2.

today. Perhaps Russia's suppression of this domestic revolt has freed it to act more assertively abroad.

Russia's province of Chechnya, located along the Georgian border in the North Caucasus, has long proved problematic for Moscow. After Chechen incursions into Dagestan in September 1999 as well as a series of bomb explosions in Russian apartments, Russia launched a second invasion (it had previously invaded in 1994-1996).⁹² The conflict was extremely violent, killing tens of thousands of civilians in Chechnya, and spurring terrorist attacks in other regions of Russia. Russia lost around 15,000 troops in the province between 1999-2006, comparable to total Soviet losses in Afghanistan.⁹³ In October 2002, a Moscow theater was seized by Chechen rebels, resulting in the deaths of 130 hostages in a botched rescue attempt.⁹⁴ In 2004, Chechens seized a school in Beslan, a city in a neighboring region, holding over 1,100 students and teachers hostage; 320 died.⁹⁵

Nevertheless, since 2005 Russia has been steadily defeating the insurgency there. The Chechen rebels' leader, Aslan Maskhadov, was killed in March 2005.⁹⁶ Legislative elections occurred in November 2005, although they were almost certainly rigged.⁹⁷ Abdul-Khalim Sudalayev, an important rebel figure, was killed in June of 2006 while Shamil Basayev, the rebel commander who led the Beslan attack, was killed in July 2006.⁹⁸ Violence dropped to a large extent, and by late 2006 the province was in relative calm (although human rights abuses and an authoritarian style of government continued apace).⁹⁹ Attacks still, however, continue both in Chechnya and in the neighboring provinces of Ingushetia and Dagestan. In May 2007, the UN ceased operations in Ingushetia after their offices were attacked with rocket propelled grenades.¹⁰⁰ *The Economist* argued that a surge in such violent actions has resulted in Ingushetia "resemble[ing] a war zone".¹⁰¹ Overall, "Moscow's success in eliminating so many Chechen rebel leaders and inflicting losses on rebel bands leads some to speculate that the back of the resistance has been broken. Nevertheless, sporadic attacks against Russian forces and pro-Moscow officials continue in Chechnya and neighboring regions."¹⁰²

This factor likely has only had a marginal impact on Russian aggression. The situation did not improve significantly until 2006, so it would be unable to account for the increase in aggression from 2002-2005. Perhaps it has had some influence on aggression since 2006, but it

⁹² Jacob W. Kipp, "Putin and Russia's Wars in Chechnya", *Putin's Russia*, 208 (Dale R. Herspinrg ed., 2005).

⁹³ Goldman, 8.

⁹⁴ Jim Nichol, "Bringing Peace to Chechnya? Assessments and Implications," *Cong. Res. Service*, 1 (March 31, 2006).

⁹⁵ *Ibid.*, 2.

⁹⁶ *Ibid.*

⁹⁷ *Ibid.*, 8.

⁹⁸ Elisabeth Smick, "The Chechen Separatist Movement," *Couns. on Foreign Rel.*, (July 18, 2006),

http://www.cfr.org/publication/11121/chechen_separatist_movement.html?breadcrumb=/bios/12310/elisabeth_s_mick.

⁹⁹ Lionel Beehner, "Fear and Loathing in Chechnya," *Couns. on Foreign Rel.*, (Mar. 12, 2007),

http://www.cfr.org/publication/12798/fear_and_loathing_in_chechnya.html.

¹⁰⁰ "Bandit Land," *The Economist*, May 3, 2007.

¹⁰¹ "And They Call it Peace," *The Economist*, Feb. 28, 2008.

¹⁰² Goldman, 8.

is quite difficult to tell. Given that the region as a whole remains restive, and fears remain about violence increasing in neighboring areas, it is likely that this factor has had a marginal impact, except perhaps in 2007.

2. U.S. weakened by difficulties in Iraq; split with Europe as a result of Iraq; other problems (Afghanistan, Iran, North Korea, etc.)

Another potential reason for Russia becoming more aggressive abroad relates to other international problems that have occurred in the past seven years. Three lines of argument can be advanced here. First, the U.S. has committed a substantial amount of troops, funds and political capital into the invasion and occupation of Iraq and Afghanistan. This means it has had less capacity with which to deter Russia from acting more aggressively abroad. Thus, “diminished U.S power as a result of the war in Iraq [has] given the Kremlin greater autonomy to pursue policy choices that Russia’s elite has long favored”.¹⁰³ Secondly, the Iraq war caused something of a break in U.S.-European relations, witnessed most clearly in the strong French and German opposition to the invasion. This has decreased transatlantic cooperation to some extent, which means that there has been less of a united front in terms of policy towards Russia. This has undoubtedly increased Russian freedom to act more aggressively abroad. Third, both Europe and the United States have been distracted by a series of other foreign policy crises and issues: the development of nuclear weapons in Iran and North Korea, the Israeli-Palestinian conflict, the wider “War on Terror”, EU enlargement, etc. All of these have diverted attention and resources that could have been used to restrain Russia to some extent. Obviously, it is impossible to measure the level of impact a lack of focus and resources may have had. Nevertheless, its effect was likely significant.

3. A change in foreign policy goals

A final potential alternative cause could be that Russia simply changed its foreign policy goals of its own accord, without oil prices having any influence. The argument would be that some type of paradigm shift occurred, and changes in Russian action abroad followed naturally.

However, that does not appear to be the case at all. Russian foreign policy seems to have had the same goals – preserving Russian independence and restoring Russia’s great-power status - since at least 2000, and possibly since the mid 1990s. Essentially, “Russian behavior in 2006 has been quite consistent with the strategy pursued by the Kremlin for the past decade, whose fundamental component is not challenging western influence but proving that Moscow still matters internationally...the substance of Russian foreign policy has not changed fundamentally, but the environment in which it is conducted has”.¹⁰⁴ Again, “looking at government documents, official statements by government figures, and discussions among Russian intellectuals, the set of ideas underlying Russian foreign policy has remained fairly constant, at least since the mid-1990s.”¹⁰⁵ A brief look at Russia’s current Foreign Policy Concept, drafted in the final months of the Yeltsin presidency and adopted in December 2000 indicates that Russian foreign policy has

¹⁰³ Mankoff, 124.

¹⁰⁴ Ibid.

¹⁰⁵ Ibid., 126.

remained remarkably consistent: “It lists the first priority of Russian foreign policy: Ensuring reliable security of the country and preserving and strengthening its sovereignty and territorial integrity and its strong and authoritative position in the world community, as would to the greatest extent promote the interests of the Russian Federation as a great power”.¹⁰⁶ This is clearly consistent with the ruling circle’s foreign policy goals: “They see the break-up of the Soviet Union as, in Mr Putin’s words, the “greatest geopolitical catastrophe” of the 20th century. Capitalising on a widespread sense that Russia has been humiliated, they want to create as mighty a state as the Soviet Union once was.”¹⁰⁷ In his 2003 address to the Federal Assembly, Putin declared that: “All our actions must be subordinated to the goal of ensuring that Russia truly takes its place among the major powers.”¹⁰⁸

It is important to note that nearly all commentators do not see Russia’s assertion of influence since Putin’s rise to power as an ideologically driven force that does not operate rationally. Neither do most see it as a restoration of the old Cold War dynamics in regard to the United States. The general consensus is that “Under Putin...[Russia] began taking a very pragmatic approach to each individual country or sub-region”.¹⁰⁹ Another notes “Putin...showed his commitment to the newly chosen course of...great power pragmatism”.¹¹⁰ Thus, Russia is not a state bent on imposing its will without moderation. Rather, it is a rational actor acting in its perceived self-interest, attempting to ensure an independent foreign policy course and extend its influence when doing so is feasible and will not arouse too much opposition. Aggression and coercion operate as a part of this strategy, with the Russian leadership perceiving such activity as enabling it to bargain from a position of strength rather than weakness. As one scholar puts it, “Russia’s “partnership enforcement” is about using coercive diplomacy not for reviving classic confrontation but for ensuring the “right terms” for cooperation.”¹¹¹ Thus, unlike in the Cold War, where hostility towards the opposing side was a built-in foreign policy reflex, exercised due to the perception that the relationship between the two nations was a zero-sum game, aggression in the current era is used as a strategic bargaining tool to attempt to increase Russian leverage. This results in Russia existing relative to the West as “a major outside player that is neither an eternal foe nor an automatic friend.”¹¹²

The alternative hypotheses probably have had some impact on the increase in Russian aggression. The settling down of the Chechen war may have increased aggression in 2007, but at most marginally. The weakening of the U.S.-European alliance in the wake of the 2003 Iraq invasion and the subsequent distraction of the U.S. from Russian affairs as a result of the ongoing insurgency there (as well as other pressing problems around the globe) has most certainly increased Russian freedom of action. Nevertheless, oil prices still have a significant role. First, none of the alternative arguments can explain the high degree of aggression in 2000

¹⁰⁶ Ibid., 130.

¹⁰⁷ “Putin’s People,” *The Economist*, Aug. 23, 2007.

¹⁰⁸ Mark N. Katz, “Exploiting Rivalries for Prestige and Profit,” *52:3 Problems of Post-Communism* 25, 26 (May/June 2005).

¹⁰⁹ Alexei Arbatov, “Moscow and Munich: A New Framework for Russian Domestic and Foreign Policies,” *Working Papers No. 3, Carnegie Ctr. Moscow*, 17 (2007).

¹¹⁰ Andrei P. Tsygankov, “New Challenges for Putin’s Foreign Policy,” *Orbis* 153 (Winter 2006): 156.

¹¹¹ Dimitri Trenin, “Russia’s Coercive Diplomacy,” *Briefing 10:1, Carnegie Ctr Moscow* (Jan. 2008): 5.

¹¹² Dmitri Trenin, “Russia Leaves the West,” *Foreign Aff.* (July/Aug. 2006).

relative to 2001 and 2002. Second, Russia's ability to exploit its freedom of action would likely have been far less without the resources and confidence imbued in it by high oil prices. Third, the statistical analysis is sufficiently robust to make it exceedingly unlikely that any set of alternative explanations can entirely disprove oil's influence on Russian foreign activity. Thus, oil has certainly had its independent impact on foreign policy, likely via the mechanisms discussed above.

VII: Implications

So, what does all of this mean for the West generally, and the United States specifically? Assessing this requires looking at two factors – first, whether Russian foreign policy will stay the same, and whether the same holds true for the factors that have led to increased Russian aggression – high oil prices and substantial energy exports – over the next decade or so.

Assessment of future policy

Russia has undergone something of a political transition over the last year, a recounting of which is necessary to attempt to project who will hold the reigns of foreign policy decision-making in the future. The Russian constitution limits the president to two consecutive terms, which for Putin meant he would need to either change the constitution or step down after the March 2nd 2008 presidential election. It was entirely unclear whether he would attempt to come up with some way to hold onto power, or quietly fade into retirement, until October 2007. In that month, he announced that he would head the party list of the pro-Kremlin United Russia party, and that he would be amenable to becoming prime minister at the end of his presidential term.¹¹³ In the parliamentary elections, which took place on December 2nd 2007, he did indeed head the party list, leading it to a sweeping victory with 64% of the vote¹¹⁴; Putin said this result gave him a “moral right” to retain significant influence in the country.¹¹⁵ These pronouncements made it clear that Putin intended on exercising significant political influence after he stepped down from the presidency. Shortly after the election, on December 10th, Putin announced that he would endorse Dmitry Medvedev as his preferred candidate in the presidential election.¹¹⁶ Medvedev went on to win 70% of the vote.¹¹⁷ After his inauguration on May 7th, he took the widely expected action of nominating Putin as prime minister, a position which Putin accepted.

Putin's endorsement led to a flurry of analysis about whether Medvedev was more liberal and pro-Western than Putin. Optimists argued that he was young, western-educated, never employed in the state security services, and, employing analysis reminiscent of the Kremlinology

¹¹³ “The Never-Ending Presidency,” *The Economist*, Oct. 4, 2007.

¹¹⁴ “The Secret Policeman's Election,” *The Economist*, Dec. 8, 2007.

¹¹⁵ Neil Buckley & Catherine Belton, “Putin's Party Set for Russia Poll Victory,” *Financial Times*, Dec 3, 2007.

¹¹⁶ Stuart D. Goldman, “Russia's 2008 Presidential Succession,” *Cong Res. Service*, 3 (Feb 26, 2008).

¹¹⁷ “Final Results Show Medvedev Won Over 70 Percent in Russian Presidential Vote,” *Associated Press*, Mar. 7, 2008.

of the Soviet era, a fan of Western rock music (Deep Purple is one of his favorite groups).¹¹⁸ Pessimists pointed out that he owed his entire political career, including his election to the presidency, to Putin.¹¹⁹ Unfortunately, the pessimists appear to have the more compelling argument. Medvedev is indeed Putin's creation – he worked alongside Putin when the latter was mayor of St. Petersburg, ran his presidential campaign, worked as chief of staff for the former president and then was appointed chair of Gazprom by Putin.¹²⁰ While serving as chief of staff, he banned members of the administration from talking to the press.¹²¹ Andrei Illianarov, a critic of Mr. Putin, argues that it is fallacious to describe Medvedev as a liberal reformer.¹²² Indeed, Medvedev has stated that he will stick to the “successful” policies of his predecessor.¹²³ Putin agrees, asserting in March 2008 that “I do not think our partners will find it easier to deal with [Medvedev]. This man is a true patriot, who will defend Russia's interests on the international arena in a most active way.”¹²⁴ Russia's foreign minister, Sergei Lavrov, supported this position, arguing that “[Medvedev] has been directly involved in the shaping of our foreign policy for the past eight years. I think we can affirm the continuation of our course.”¹²⁵ As if to confirm this, hours after Medvedev's inauguration on May 7th, two American military attaches were booted out of the country, and hectoring towards Georgia regarding its two Russian-supported separatist enclaves remained rife.¹²⁶

Even if Medvedev does harbor a different foreign policy perspective than Putin, it is unclear whether he will remain in power for long, or even hold real power to begin with. The Russian constitution only prevents an individual from serving as president for two *consecutive* terms; Putin could move back into the Kremlin in 2012 – or earlier should Medvedev step down and a snap election take place.¹²⁷ Alternatively, he could easily amend the constitution to transfer powers to the prime minister, given that United Russia controls over two-thirds of the seats in the Duma. Even without a formal transfer of power, Medvedev could simply defer to Putin and allow *de facto* authority to shift to the prime minister's office. Indeed, most Russians believe Putin will continue to wield preeminent authority – only 22% believe that Medvedev will have real power.¹²⁸ It is certainly possible that Medvedev will develop an independent power base simply by virtue of sitting in the Kremlin. This is because the president has a wide array of privileges and prerogatives, such as attendance at foreign summits, control over the nuclear arsenal and a hefty staff. As one author puts it, “Medvedev should be able to make the most of such trappings [of the presidency] so that, over time, real power and authority will accrue to

¹¹⁸ “Spot the President,” *The Economist*, Dec. 13, 2007.

¹¹⁹ *Ibid.*

¹²⁰ “Enter Putin Two,” *The Economist*, Dec. 13, 2007.

¹²¹ *Ibid.*

¹²² *Ibid.*

¹²³ “Russia's Uneasy Handover,” *The Economist*, Feb. 28, 2008.

¹²⁴ “Medvedev Will Firmly Defend Russia's Interests On World Arena – Putin,” *Interfax*, Mar. 8, 2008, <http://www.cdi.org/russia/johnson/2008-52-4.cfm>.

¹²⁵ “Russia's Foreign Policy Won't Change Under Medvedev,” *Interfax*, Apr. 17, 2008, <http://www.cdi.org/russia/johnson/2008-78-8.cfm>.

¹²⁶ “A Parade of Power in Russia,” *The Economist*, May 9, 2008.

¹²⁷ Goldman, 6.

¹²⁸ “A Strange Kremlin Wedding,” *The Economist*, May 8, 2008.

him.”¹²⁹ Thus, the situation is highly uncertain, and there remains a real chance of a shift in Russian foreign policy. Nevertheless, the odds of Mr. Medvedev having both the ability and desire to liberalize Russian policy and adopt a more amicable foreign policy look rather low. More likely than not, the broad contours of Russian foreign policy will remain the same well into the foreseeable future.

Assessment of future oil prices and future Russian energy production

An assessment of what future developments the conclusions presented above betoken also hinges on whether the same drivers of Russia’s energy might – high oil and gas prices combined with a stable or increasing level of production – continue to hold true. As with the political situation, there is considerable uncertainty on this count.

A dramatic decline in oil prices would be disastrous for Russia. The Kremlin would do well to look at its own history twenty years ago. In late 1985, Saudi Arabia decided to dramatically increase oil production, causing a massive decline in oil prices. This led to a loss of around \$20 billion a year for the USSR, “money without which the country simply could not survive”.¹³⁰ In part thanks to this dramatic decline, the Soviet Union collapsed six years later.¹³¹ Obviously Russia differs from the USSR in innumerable respects today, but “there is not much difference between the Soviet Union and today’s Russia in the percentage of energy supplies in overall exports, or in the dynamics of absolute volumes of energy supplies to the world market.”¹³²

A near-term dramatic decline of oil prices, however, is unlikely. First, the oil market is extremely tight – spare capacity as a percentage of total production was less than 1% in 2004 and 2005.¹³³ Second, the largest oil-producing region in the world, the Middle East, is remarkably unstable and will remain so for the foreseeable future. Third, the fast-growing economies of China and India have increased oil imports dramatically (in 2003 China accounted for more than 40% of the growth in global demand for oil; both countries’ energy consumption will double by 2030¹³⁴), while older oil fields in the North Sea and other areas of the world have had most of their reserves depleted.¹³⁵ Therefore, the general consensus is that “high energy prices reflect a general shortage of energy that...could confront mankind in the next 10 to 15 years”.¹³⁶ A recent International Energy Agency report confirms these conclusions.¹³⁷ The June 2008 spike in oil prices to \$142 a barrel, despite an economic slowdown in Europe and America and an increase in

¹²⁹ Rose Gottemoeller, “No Softer Than Putin,” *Moscow Times*, May 7, 2008.

¹³⁰ Yegor Gaidar, “The Soviet Collapse: Grain and Oil,” *On the Issues, Am. Enterprise Inst. for Pub. Pol’y Res.*, 5 (Apr. 2007).

¹³¹ Alexander Arbatov et. al., “Unrelenting Oil Addiction,” *Russ. in Global Aff.*, (Apr./June 2005), <http://eng.globalaffairs.ru/numbers/11/914.html>.

¹³² Ibid.

¹³³ “Nervous Energy,” *The Economist*, Jan. 5, 2006.

¹³⁴ “IEA Sounds Alarm Over Huge Energy Demands,” *Financial Times*, Nov. 8, 2007.

¹³⁵ Vladimir Milov, “The World After Oil,” *Russ. in Global Aff.*, (July / Sept. 2004), <http://eng.globalaffairs.ru/numbers/8/585.html>.

¹³⁶ Mikhail Delyagin, “Assessing Russia’s Energy Doctrine,” *Russ. In Global Aff.*, (Oct. / Dec. 2006), <http://eng.globalaffairs.ru/numbers/17/1072.html>.

¹³⁷ “IEA Sounds Alarm Over Huge Energy Demands.”

Saudi oil production, underscores the tight worldwide energy market.¹³⁸ Short of a major new oil discovery, alternative energy breakthrough or wave of peace throughout the wider Middle East (all possible, none probable), high oil prices are here to stay for at least the next several years.

Despite these high prices, Russia faces a troubling future when it comes to maintaining its current level of oil and gas production, and the next decade will be critical. It faces four overarching problems: insufficient development of new energy reserves, a deteriorating and insufficient pipeline infrastructure, inefficient and growing domestic energy consumption, and an incentive structure that discourages new developments in the energy sector. It will need to undertake some fairly thorough reforms if it wishes to maintain the current level of energy exports over the next decade and beyond.

First, the easily accessible Soviet-era reserves that now provide most of Russia's energy are rapidly depleting. In 2006, around 24 percent of Russia's oil production came from fields that had already produced 60 percent of their total recoverable reserves.¹³⁹ Gas fields are declining as well. In 2005, 68% of Russia's oil and 91% of its natural gas came from the western Siberian region Tyumen.¹⁴⁰ This has not been offset by new field development. Gazprom approved an investment program in 2005 of nearly \$11 billion a year, but most has gone into foreign acquisitions and new pipelines, rather than new field development.¹⁴¹ No new major oil reserves have been found since 2000, and exploratory drilling has remained low.¹⁴² 60% of Russia's current reserves qualify as "difficult to recover".¹⁴³ This is largely because Russia will need to move into new areas, mainly in eastern Siberia and offshore, where production is far more expensive and technologically challenging.¹⁴⁴ Worryingly, Russian output declined in April 2008 for the fourth month in a row, resulting in total output dropping 2% below its October 2007 peak of 9.9 million barrels a day (mbd).¹⁴⁵

Second, the pipeline system is rapidly deteriorating. Today, out of the 7mbd that Russia exports, only 4mbd are exported via pipelines.¹⁴⁶ The rest must be transported by the more expensive means of railroads, which doubled the average cost of transportation between 1999 and 2003.¹⁴⁷ One third of Russia's oil pipelines are over thirty years old, and another third over twenty, which will require massive investment to maintain in the near future.¹⁴⁸ Transneft, the

¹³⁸ Julia Werdigier, "World Stocks Sag as Oil Price Surges," *N.Y. Times*, June 28, 2008.

¹³⁹ U.S. Energy Information Administration, *Country Analysis Brief – Oil*, May 2008, <http://www.eia.doe.gov/emeu/cabs/Russia/Oil.html>.

¹⁴⁰ Brookings Institution, 16.

¹⁴¹ U.S. Energy Information Administration, *Country Analysis Brief – Natural Gas*, April 2007, <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>. (this specific information was removed from the May 2008 version, but the same general conclusion about underinvestment in production remains).

¹⁴² David Quayat, "The Russian Oil Sector and the Global Oil Economy: A Prospectus," 23:2 *SAIS Rev.*, at 4-5 (Summer / Fall 2003).

¹⁴³ *Ibid.*, 5.

¹⁴⁴ Brookings Institution, 16.

¹⁴⁵ "Trouble in the Pipeline," *The Economist*.

¹⁴⁶ Aron, 1.

¹⁴⁷ *Ibid.*

¹⁴⁸ *Ibid.*

state pipeline operator, is short of the funds it needs to maintain pipelines, much less build the additional 4,000 miles of new pipelines it intends to construct.¹⁴⁹ The Minister for Economic Development claims that pipeline investment is only 29% of what is necessary for proper maintenance.¹⁵⁰

Third, domestic consumption of energy is growing and increasingly inefficient. Gas is an incredibly important domestic resource, given that it accounts for 55% of Russia's primary needs and 80% of its power generation.¹⁵¹ However, economic distortions are jeopardizing Russia's ability to maintain its current level of gas exports. Only 15% of energy is sold at market prices.¹⁵² Domestic gas prices are only around 15-20% of the market rate of gas sold to Germany, resulting in a \$420 million loss to Gazprom on domestic sales in 2006.¹⁵³ Another estimate is that energy prices as a whole are one-half to one-third of those in the West.¹⁵⁴ The low energy prices encourage inefficiency, as the economic incentive to utilize energy in more efficient ways (such as modernizing technology) is reduced. As a result, Russia's consumption of oil equivalent per dollar of GDP is estimated to be 2.5 to 5 times higher than in more developed countries.¹⁵⁵ One estimate is that if consumption patterns remain unchanged, Russia will need to increase oil production for domestic consumption by nearly a billion barrels by 2015, or else cut exports.¹⁵⁶ Domestic demand for gas is growing around 2.2% annually; investment bank UBS reports that if growth in demand rises to 2.5% "the risk of supply crisis is real".¹⁵⁷

Fourth, the current incentive structure strongly discourages exploration and development of new oil and gas fields, despite the high prices. In addition to export duties and a mineral resources tax, oil companies are subject to a 90% tax on profits when the price per barrel of oil exports is above \$25.¹⁵⁸ There is also a dramatic lack of transparency in the energy sector, which serves as a strong deterrent to foreign investment.¹⁵⁹ In sum, "foreign investors in the Russian [energy sector] are met with many obstacles".¹⁶⁰ This is problematic, as investment is desperately needed: given all of the above problems, the International Energy Agency estimates that the gas industry needs about \$164-171 billion until 2020, and the oil industry needs \$157-197 over the same time period.¹⁶¹

¹⁴⁹ Ibid., 2.

¹⁵⁰ Larsson, 42.

¹⁵¹ Ibid., 43.

¹⁵² Aron, 3.

¹⁵³ U.S. Energy Information Administration, *Country Analysis Brief – Natural Gas*, May 2008, <http://www.eia.doe.gov/emeu/cabs/Russia/NaturalGas.html>.

¹⁵⁴ Victor & Victor.

¹⁵⁵ Aron, 3.

¹⁵⁶ Ibid.

¹⁵⁷ Yulia Tymoshenko, "Containing Russia," *Foreign Aff.* (May / June 2007).

¹⁵⁸ Aron, 4.

¹⁵⁹ Larsson, 73.

¹⁶⁰ Ibid., 86.

¹⁶¹ Ibid., 41-42.

Nevertheless, it is far from certain that Russia faces a crisis in its energy output. In the next few years, total oil production is expected to grow at a rate of around 1.5-2.5%.¹⁶² Russia adopted a policy to gradually increase domestic gas prices to parity with market rates in November 2006; an initial increase of 15% occurred in 2007.¹⁶³ If all goes to plan, caps will be removed on gas prices for industrial consumers in 2011, followed by residential consumers in 2013.¹⁶⁴ While the foreign investment climate is poor, the prospect of profits is sufficiently high to give firms an incentive to invest.¹⁶⁵ Relief from high taxes may be in sight, due to Putin's advocacy of such reforms in his inaugural address as prime minister.¹⁶⁶ It must be stressed that Russia will remain a key energy player into the foreseeable future, given the size of its reserves. The doubts pertain to whether or not, in the near-term, Russian energy exports can maintain their current level.¹⁶⁷

Overall, the world can expect more of the same in the future regarding oil's impact on Russia's foreign policy. Oil prices will almost undoubtedly remain high into the foreseeable future. Even if Russian exports decline somewhat due to internal failings, they will still remain significant. If the Kremlin implements its decisions to increase domestic energy efficiency, invests more in maintenance and exploration, and decreases the barriers to foreign involvement, it could even increase its exports over the next decade.

VIII: Conclusion

The increase in Russian aggression over the last seven years has been due, in large part, to the rise in oil prices. Additionally, high energy prices and the current style of Russian foreign policy making both look like they are here to stay, despite the presence of uncertainty on both counts. Therefore, Russia will most likely continue to act in an aggressive fashion towards the West. It will not do so recklessly or without cause, but rather to pursue its own interests as it sees them. In concrete terms, this means Russia will continue to support states (Syria, Iran, Belarus) and groups (Hamas) that the United States is on unfavorable terms with, bully neighboring states to gain economic and political influence, ensure that it remains the dominant energy supplier to Europe by maintaining tight control over pipeline networks in the former Soviet Union, continue to restore its military forces, oppose U.S. missile defense plans, and do its utmost to prevent any further eastward expansion of the European Union and NATO.

This presents a situation that will be difficult for the United States to deal with. The U.S. has no capacity to alter the factor – high oil prices – that has led to Russian aggression abroad, nor

¹⁶² U.S. Energy Information Administration, *Country Analysis Brief – Oil*, April 2007, <http://www.eia.doe.gov/emeu/cabs/Russia/Oil.html>. (this specific information was removed from the May 2008 version).

¹⁶³ U.S. Energy Information Administration, *Country Analysis Brief*. (this specific information was removed from the May 2008 version).

¹⁶⁴ Ibid.

¹⁶⁵ Larsson, 85.

¹⁶⁶ “Trouble in the Pipeline”, *The Economist*.

¹⁶⁷ Larsson, 37.

can it somehow change Russian foreign policy decision-making. Instead, the U.S. will need to adopt a more flexible approach. In some areas – combating terrorism, preventing nuclear weapons proliferation – the two states share similar interests, and cooperation should be pursued to the utmost extent possible. In many areas, however, conflicting interests will override cooperative ones. In this case, the U.S. needs to pick its battles wisely, only exerting significant effort into projects that the U.S. has a significant interest in. The U.S. also needs to get better at linking progress on issues Russia wants, such as WTO accession, to issues the U.S. has a stake in, rather than pursuing them separately. As the Council on Foreign Relations put it: “American policy toward Russia has to become more selective, and the approach the United States selects will vary from issue to issue...American preferences may not matter much. Russian policy has shown such a high degree of competitiveness in these regions that increased friction between Moscow and Washington may prove inevitable. In this context, the real challenge for U.S. policy will be to advance American interests even in the face of friction, not to eliminate the friction altogether.”¹⁶⁸ Above all, the United States needs to engage with Russia and treat it as a serious power with its own legitimate national interests, rather than trying to ignore it or exhort it to adopt the Western position. As one author puts it: “engaging with Russia, where possible and desirable, must be based on mutual self-interest. Most important, Western leaders have to avoid wishful thinking when trying to embrace either a Kremlin ruler or a liberal opposition figure.”¹⁶⁹ This is in line with what Russian Foreign Minister Sergei Lavrov recently wrote, “We will safeguard our own security...at the same time, the door for positive joint action to ensure common interests on the basis of equality will always remain open.”¹⁷⁰

The U.S. would also benefit from encouraging the EU to take a more consistent line on Russia. On several issues, especially energy policy, there is no common EU position. This allows Russia to play a game of divide and conquer in regards to the EU. This is most clear in Russia’s building of the Nord-Stream pipeline to Germany. This will bypass the Ukraine, Poland and the Baltic states, allowing Russia to turn the gas tap off to the eastern members whenever it pleases without depriving the West of fuel. Germany is in favor of it, the eastern countries are in adamant opposition. This seriously harms the ability of the EU to act regarding Russia, which is a net negative for the U.S., since the transatlantic entities hold similar positions on issues related to Russia.

To start with, then, the West has two overarching strategic tasks. First, it needs to take Russia seriously, and devote substantial quantities of time and resources to Russian diplomacy, realizing that confrontation is as likely as cooperation. Second, the West needs to adopt a more unified position regarding the Kremlin, so as to enhance its collective bargaining leverage vis-à-vis the Russian Federation. In sum, the West needs to get one fact clear – fueled by high oil prices, Russia is back, confident and ready to assert itself on the world stage.

¹⁶⁸ Edwards, 48.

¹⁶⁹ Trenin, “Russia Leaves the West”.

¹⁷⁰ Lavrov.

Appendix: List of Aggressive Events.

February 2000 – Putin signs a Treaty on Friendship, Good-Neighborly Relations and Cooperation with North Korea.¹ 3

April 2000 – Russia seizes a Japanese fishing boat in a dispute over maritime boundaries.² 2

May 2000 – Russia hosts a Kosvo war crimes suspect in Moscow.³ 1.5

July 2000 – Putin visits Kim Jong Il in Pyongyang.⁴ 2

July 2000 – Russia, China, Tajikistan, Krgyzstan and Kazakhstan agree to set up a joint anti-terrorist center in Bishkek and promise to work together to fight terrorism, drug trafficking and separatism.⁵ 2.5

September 2000 – Russia withdraws from the 1992 agreement on visa-free travel for CIS countries, and would henceforth conclude agreements on a bilateral basis.⁶ 2.5

September 2000 – Russia charges an American businessman as a spy.⁷ 1.5

October 2000 – presidents of Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan, and Tajikistan upgraded their 1992 Collective Security Treaty, giving it more operational substance and *de jure* Russian military dominance.⁸ 3.5

October 2000 – Eurasian Economic Association, which includes Russia, Belarus, Tajikistan, Kazakhstan and Kyrgyzstan is formed.⁹ 2

November 2000 – Putin renounces the 1995 Gore-Chernomyrdin treaty where Moscow agreed to limit nuclear and military cooperation with Iran.¹⁰ 4

December 2000 – Defense Minister Sergeev pays a visit to Tehran, the first of its kind since 1979, to explore the sale of missiles and other weaponry.¹¹ 4

December 2000 – Russia requires Georgian visitors to have visas, but does not do the same for the other 10 CIS members. It also exempts the regions of South Ossetia and Abkhazia.¹² 3

¹ Alexander Vorontsov, “Current Russia – North Korea Relations: Challenges and Achievements,” *The Brookings Inst.*, 8 (Feb. 2007).

² Howard W. French, “Russia Seizes Japanese Vessel In Maritime Boundary Dispute,” *N.Y. Times*, Apr. 22, 2000.

³ Douglas Hamilton, “Russia Apologizes For Yugoslav’s Visit,” *Wash. Post*, May 25, 2000.

⁴ Vorontsov, 9-10.

⁵ “Putin and Jiang in Central Asia Accord,” *N.Y. Times*, July 6, 2000.

⁶ The Jamestown Foundation, “Russia Withdraws From Visa-Free Travel Arrangement,” 6:163 *Monitor* (Sep. 5, 2000), http://www.jamestown.org/publications_details.php?volume_id=23&issue_id=1852&article_id=17551.

⁷ David Hoffman, “Russia Charges American as Spy,” *Wash. Post*, Sep. 28, 2000.

⁸ Stuart D. Goldman, “Russian Political, Economic, and Security Issues and U.S. Interests,” *Cong. Res. Service*, 11 (May 31, 2007).

⁹ Leszek Buszynski, “Russia’s New Role in Central Asia,” 45:4 *Asian Surv.* 546, 551 (July / Aug. 2005).

¹⁰ Robert O. Freedman, “Putin and the Middle East,” 4:6 *Middle East Rev. of Int’l. Aff.*, (June 2002), <http://meria.idc.ac.il/journal/2002/issue2/jv6n2a1.html>.

¹¹ Ariel Cohen & James A. Phillips, “Countering Russian-Iranian Military Cooperation,” *Backgrounder #1425, The Heritage Found.*, (Apr. 5, 2001).

December 2000 – Putin makes a trip to Cuba, the first by a Russian president since the collapse of the USSR.¹³ 1.5

March 2001 – Russia expels 4 US diplomats, due to espionage charges.¹⁴ 2

April 2001 – Russia agrees to upgrade Soviet-era North Korean weaponry.¹⁵ 3

June 2001 – The Shanghai Cooperation Organization, consisting of Russia, China, Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan is formed.¹⁶ 3

August 2001 – Kim Jong Il visits Russia, holds talks with Putin.¹⁷ 1.5

October 2001 – Russian forces raid the Khodori Gorge in the Abkhaz region of Georgia in pursuit of Chechen guerillas.¹⁸ 4.5

December 2001 – Russia agrees to sell 12 MIG-29 fighters to Sudan.¹⁹ 3

June 2002 – Russia offers passports to hundreds of thousands of individuals in Abkhazia.²⁰ 3

August 2002 – Iraq announces a new hefty trade deal with Russia.²¹ 3

August 2002 – Russian bombers hit the Chechen rebels in Georgia's Pankisi Gorge.²² 4.5

August 2002 – Kim Jong Il makes another visit to Russia.²³ 1.5

September 2002 – Putin openly threatens to invade Georgia's Pankisi Gorge if the rebel activity there is not quelled.²⁴ 4

December 2002 – Russia expels 2 Canadian diplomats.²⁵ 1

¹² "Hot Winter," *The Economist*, Dec 7, 2000.

¹³ Tom Gibb, "Putin Flies into Cuba with a Message of Solidarity," *The Guardian* (U.K.), Dec. 14, 2000, <http://www.guardian.co.uk/world/2000/dec/14/russia.cuba>.

¹⁴ Patrick E. Tyler, "Russia Expels 4 Americans and Vows 'Other Measures' ", *N.Y. Times*, Mar. 24, 2001.

¹⁵ "Russia Will Aid Arsenal In N. Korea," *Wash. Post*, Apr. 28, 2001.

¹⁶ Buszynski, 553.

¹⁷ "North Korean Leader Departs Russian", *N.Y. Times*, Aug. 19, 2001.

¹⁸ "Who Attacked Abkhazia and Why?," 4:34 *Caucasus Rep.*, *Radio Free Europe / Radio Liberty*, Oct 12, 2001, <http://www.rferl.org/content/Article/1341915.html>.

¹⁹ Scott Peterson, "Sudan's Key Ties at the UN," *Christian Sci. Monitor*, Aug. 31, 2004, <http://www.csmonitor.com/2004/0831/p01s02-wogi.html>

²⁰ Inal Khashig, "Abkhaz Snap Up Russian Passports," *Moscow Times*, July 1, 2002.

²¹ "Huge Trade Deal Draws Russia to Iraq," *BBC*, Aug 17, 2002, http://news.bbc.co.uk/2/hi/middle_east/2200041.stm.

²² Robyn Dixon, "Georgia, Russia Trade Blame," *Los Angeles Times*, Aug. 24, 2002, <http://articles.latimes.com/2002/aug/24/world/fg-georgia24>.

²³ Dough Struck, "N. Korean Leader Meets With Putin; Summit Part of Regional Diplomatic Effort To Break With Decades of National Isolation," *Wash. Post*, Aug. 24, 2002.

²⁴ "Smiles All Round – Till the Next Time," *The Economist*, Oct. 10, 2002.

²⁵ Sabrina Tavernise, "World Briefing Europe: Russia: 2 Canadians Expelled," *N.Y. Times*, Dec. 10, 2002.

December 2002 – Russia expels 2 Swedish diplomats.²⁶ 1

February 2003 – the presidents of Russia, Ukraine, Belarus, and Kazakhstan agreed in principle to create a “single economic space” (SES) among the four countries.²⁷ 3

April 2003 – Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Armenia and Belarus form the Collective Security Treaty Organization (CSTO).²⁸ 3.5

May 2003 – At the Moscow summit, the SCO decides to create joint military exercises, an anti-terrorist center in Tashkent and a secretariat in Beijing.²⁹ 3

September 2003 – the presidents of Russia, Ukraine, Belarus, and Kazakhstan sign an agreement to create a “single economic space” (SES) among the four countries.³⁰ 3

October 2003 – Russia establishes its first new regional base in Central Asia since the end of the Cold War in Kant, Kyrgyzstan.³¹ 3.5

November 2003 – Russia remains in 2 military bases in Georgia, says it would need 11 years to vacate them, contrary to its agreement at the Instabul summit of the OSCE in 1999.³² 4

November 2003 – Putin calls off a trip to Moldova, after the country refuses to ratify an agreement that would allow Russian troops to remain in the country.³³ 3

February 2004 – Russia briefly interrupts deliveries of gas to Belarus when its president, Lukashenka, irked Russia one too many times.³⁴ 2.5

March 2004 – Defense Minister Sergei Ivanov declares that the Baltic states full integration into NATO might result in a reconsideration of Russian nuclear strategy.³⁵ 3.5

March 2004 – Russia expels 5 Lithuanian diplomats.³⁶ 1.5

April 2004 – Russia secures an agreement with Turkmenistan to have the latter sell at least 2 trillion cubic meters of gas to Russia until 2028.³⁷ 3

²⁶ Steven L. Meyers, “World Briefing Europe: Russia: Swedish Diplomats Expelled,” *N.Y. Times*, Dec. 3, 2002.

²⁷ Goldman, 8.

²⁸ Andrei P. Tsygankov, “If Not by Tanks, then by Banks? The Role of Soft Power in Putin’s Foreign Policy,” 58:7 *Europe-Asia Stud.* 1079, 1083 (Nov. 2006).

²⁹ Buszynski, 553.

³⁰ Goldman, 8.

³¹ Richard Weitz, “Averting a New Great Game in Central Asia,” 29:3 *Wash. Q.* 155, 157 (Summer 2006).

³² Vladimir Socor, “Do or Die for the OSCE in Maastricht,” *Wall St. J. Europe*, Nov. 7, 2003, http://www.iasps.org/eng_editor/wallstreet.php?lang=2&main=&type=4&article_id=322.

³³ Sophia Kishovsky, “World Briefing Europe: Moldova: Putin Cancels Visit,” *N.Y. Times*, Nov. 26, 2003.

³⁴ “Russia’s Energetic Enigma,” *The Economist*, Oct 6, 2005.

³⁵ “Russia Warns NATO with Nuclear Option,” *Associated Foreign Press*, Mar. 25, 2004, <http://www.spacewar.com/2004/040325131714.ze0u31xv.html>.

³⁶ Steven L. Myers, “World Briefing Europe: Russia: Lithuanian Diplomats Expelled,” *N.Y. Times*, Mar. 31, 2004.

June 2004 – Russia reaches an agreement with Tajikistan to allow its troops and military installations to remain in the country in return for forgiving some of Tajikistan’s debt, energy investments, and an agreement to let its labor migrants into Russia.³⁸ 3.5

June 2004 – Russia reaches an agreement with Uzbekistan, on Russian military relations and investment in the energy sector.³⁹ 3.5

August 2004 – Russia expels a Lithuanian diplomat, accusing him of “activities that damage Russia’s interests”.⁴⁰ 1

August 2004 – Joint military exercises take place in Krygzstan involving Russian, Krgyz, Kazakh and Tajik forces, simulating a terrorist attack.⁴¹ 3

October 2004 – Russia’s 201st motorized infantry division gains a permanent base in Tajikistan, near Dushanbe.⁴² 3.5

October 2004 – Russia intervenes in the Ukrainian presidential election, first by heavily supporting Yakunovich and then by recognizing Yankuovich as the victor.⁴³

November 2004 – Putin announces development of the SS-27 nuclear missile.⁴⁴ 3.5

February 2005 – Russia pressures Krgyzstan to reject a US request to station AWACS aircraft at Ganci.⁴⁵ 3.5

February 2005 – Russia sells air defense systems to Syria.⁴⁶ 3.5

February 2005 – Russia agrees to send nuclear fuel to Iran.⁴⁷ 3.5

April 2005 – Joint military exercises take place in Tajikistan involving Russian, Krgyz, Kazakh and Tajik forces, simulating a terrorist attack.⁴⁸ 3

July 2005 – SCO approved a Moscow backed initiative calling for the withdrawal of US bases in Central Asia. A few weeks later, Uzbekistan kicks the US out of the Karshi-Khanabad airbase.⁴⁹ 3.5

³⁷ “Russia, Turkmenistan Sign Strategic Gas Agreement,” *Central Asia-Caucasus Inst. Analyst*, Apr. 10, 2003, <http://www.cacianalyst.org/?q=node/1099>

³⁸ Buszynski, 559-560.

³⁹ Fiona Hill, “Moscow Discovers Soft Power,” *Current Hist.*, Oct. 2006, 341, 346.

⁴⁰ Steven L. Myers, “World Briefing Europe: Russia: Lithuanian Expelled,” *N.Y. Times*, Aug 7, 2004.

⁴¹ Buszynski, 553.

⁴² Weitz.

⁴³ Celeste A. Wallander, “Russian Transimperialism and its Implications,” 30:2 *Wash. Q.* 107, 112, 114 (Spring 2007).

⁴⁴ Goldman, 18.

⁴⁵ Weitz, 158.

⁴⁶ Mark N. Katz, “Exploiting Rivalries for Prestige and Profit,” 52:3 *Problems of Post-Communism* 25, 33 (May / June 2005).

⁴⁷ “Russia to Provide Fuel for Iranian Reactor,” *Wash. Post*, Feb. 28, 2005.

⁴⁸ Buszynski, 553.

August 2005 – Russia holds the first-ever joint military exercises with China, which involved over 10,000 troops.⁵⁰ 3

September 2005 – Russia and Uzbekistan conduct their first joint military exercises since the USSR's collapse.⁵¹ 3.5

October 2005 – Russia conducts joint military exercises with India.⁵² 2

November 2005 – Polish meat import ban.⁵³ 2

November 2005 – Russia and Uzbekistan sign a Treaty on Allied Relations pledging mutual military assistance in the event either become a victim of aggression.⁵⁴ 3.5

December 2005 – Russia sells Iran air defense systems and agrees to upgrade aircraft and tanks.⁵⁵ 4

January 2006 – Russia shuts off natural gas to Ukraine for 2 days.⁵⁶ 4

January 2006 – Russia blocks meat and dairy imports from the Ukraine.⁵⁷ 2

January 2006 – Putin warns that independence for Kosovo could set a dangerous precedent for secessionist movements in South Ossetia and Abkhazia.⁵⁸ 3

January 2006 – Russia briefly shuts off natural gas to Moldova because it did not agree to an increase in prices.⁵⁹ 3

March 2006 – Newly elected leaders of Hamas meet with Putin in Moscow; Russia agrees to fund the Hamas government, deeply angering the US.⁶⁰ 3.5

March 2006 – Russia placed an embargo on Moldovan and Georgian wines and spirits.⁶¹ 2

April 2006 – Russia says it may divert oil and gas shipments away from the West to China if the west did not open up its domestic energy sectors to Russian investment.⁶² 3

⁴⁹ Goldman, 12-13.

⁵⁰ Leon Aron, "U.S.-Russia Relations Through the Prism of Ideology," *Russ. in Global Aff.*, (July-Sept. 2006), <http://eng.globalaffairs.ru/numbers/16/1042.html>.

⁵¹ Weitz, 158.

⁵² "India, Russia Hold Military Exercises in Northern India," *Radio Free Europe/Radio Liberty*, Oct. 11, 2005.

⁵³ "Russia Stand Firm on Polish Meat Ban," *United Press Int'l.*, Oct. 23, 2007.

⁵⁴ Weitz, 158.

⁵⁵ Tom Regan, "Iran Takes Possession of Russian Air Defense Missiles," *Christian Science Monitor*, Jan. 25, 2007.

⁵⁶ "Nervous Energy," *The Economist*, Jan 5, 2006.

⁵⁷ "Toxic Tipple, but All Our Own," *The Economist*, Apr.12, 2006.

⁵⁸ Tsygankov, 1094.

⁵⁹ Bernard A. Gelb, "Russian Natural Gas: Regional Dependence," *Cong. Res. Service*, at 2 (Jan 10, 2007).

⁶⁰ "Russia is not a Piece of Furniture," *The Economist*, Apr. 20, 2006.

⁶¹ "Toxic Tipple, but All Our Own," 57.

⁶² Aron.

April 2006 – Russia, Kazakhstan and Belarus sign the first set of documents to implement the agreement on a Common Economic Space.⁶³ 2

April 2006 – Gazprom becomes the sole owner of Armenia’s gas transportation system.⁶⁴ 2

May 2006 – Russia bans water imports from Georgia.⁶⁵ 2

July 2006 – Lithuania sells an oil refinery to a Polish firm instead of a Russian one; the pipeline supplying the plant with oil has some mysterious technical problem, shutting down the flow of oil.⁶⁶ 3

September 2006 - Russia agrees to ship nuclear fuel to Iran.⁶⁷ 3.5

September 2006 – Russia severs all transport links with Georgia after the latter expels alleged Russian spies from the country. It also deports numerous Georgians it claims are working in Russia illegally.⁶⁸ 3.5

November 2006 – Alexander Litvinenko murdered in London.⁶⁹ 4

January 2007 – In the wake of another dispute over gas and oil pricing to Belarus, Russia shuts off the oil pipeline to Belarus for 3 days.⁷⁰ 3

February 2007 – Putin blasts the US at a summit in Munich: “Mr. Putin gave a blunt précis of Russian grievances with America. “Unilateral and frequently illegitimate actions,” he said, had “caused new human tragedies and created new centres of tension.” The world, Mr Putin added, was witnessing “an almost uncontained hyper use of force”, which was plunging it into “an abyss of permanent conflicts”. Lest anyone mistake him, he specified that “the United States has overstepped its national borders in every way,” exhibiting “a greater and greater disdain” for international law.⁷¹ 2

February 2007 – Russia refuses to let a close ally of Ukraine’s President Yushchenko into the country.⁷² 1

February 2007- Commander of Russia’s strategic forces, General Nikolai Solovtsov, said the Czech Republic and Poland could be targeted if they install US NMD components on their territory.⁷³ 4

April 2007 – Russia holds discussions with Qatar and Iran about forming a natural gas cartel.⁷⁴ 3.5

⁶³ Tsygankov, 1082.

⁶⁴ Ibid., 1083.

⁶⁵ “Fighting Talk Casts a Summer Shadow,” *The Economist*, Aug. 3, 2006.

⁶⁶ Andrew E. Kramer, “Lithuanians Are Given A Taste of How Russia Plays the Oil Game,” *N.Y. Times*, Oct. 28, 2006.

⁶⁷ “Russia Agrees to Send Fuel for Iran Nuclear Plant,” *N.Y. Times*, Sept. 27, 2006.

⁶⁸ “The Mouse that Roared,” *The Economist*, Oct. 5, 2006.

⁶⁹ “Murder Most Opaque,” *The Economist*, Dec. 13, 2006.

⁷⁰ Paul Belkin, “The European Union’s Energy Security Challenges,” *Cong. Res. Service*, 5 (May 7, 2007).

⁷¹ “Not a Cold War, but a Cold Tiff,” *The Economist*, Feb. 15, 2007.

⁷² Andrew E. Kramer, “World Briefing Europe: Russia: Border Incident Shows Tensions With Ukraine,” *N.Y. Times*, Feb. 10, 2007.

⁷³ “Europe’s Space Wars,” *The Economist*, Feb. 23, 2007.

⁷⁴ “A Bear at the Throat,” *The Economist*, Apr. 12, 2007.

April 2007 – Estonia removes a war memorial from its capital to a military cemetery; Russia responds by hiring goons to blockade the Estonian embassy in Moscow, protests strongly, and cuts oil exports. Estonia's computing system is also attacked by computers with Kremlin IP addresses. On May 1st, Russian coal and oil exports to the country stop.⁷⁵ 4

April 2007 – Putin says Russia will pull out of the Conventional Forces in Europe treaty.⁷⁶ 3.5

May 2007 – Russia agrees to set up a nuclear research reactor in Myanmar.⁷⁷ 3

May 2007 – Putin persuades Kazakhstan and Turkmenistan to export more gas through Russia, ruining US and EU hopes of sending gas via a trans-Caspian pipeline.⁷⁸ 3

July 2007 – Russia expels 4 British diplomats, in return for Britain expelling 4 diplomats due to Russia's failure to allow them to conduct a full-scale investigation of the Litvinenko affair.⁷⁹ 2.5

July 2007 – Putin says Russia will step up its spying activities and military capacity due to the US plans to install NMD in central Europe.⁸⁰ 3

August 2007 – Russia resumes long range bomber patrols. (announced at the SCO wargames).⁸¹ 3.5

August 2007 – Russian bomb falls in Georgian territory.⁸² 3.5

August 2007 – Admiral Vladimir Masorin states that Russia intends to “restore its permanent presence” in the Mediterranean using the Baltic and Black Sea fleets.⁸³ 3.5

August 2007 – Russia participates in wargames with the Shanghai Cooperation Organization; hints that it may be a forum designed to counterbalance NATO.⁸⁴ 3.5

August 2007 – Russia claims the North Pole.⁸⁵ 3

August 2007 – Russia threatens gas cut off to Belarus if it does not repay a \$456 million gas debt.⁸⁶ 2.5

September 2007 – Russia tests a new thermobaric bomb.⁸⁷ 3

⁷⁵ “The Right to be Wrong,” *The Economist*, May 3, 2007.

⁷⁶ Goldman, 1.

⁷⁷ “Do You Want to be in my Gang?,” *The Economist*, May 16, 2007.

⁷⁸ “The Big Chill,” *The Economist*, May 17, 2007.

⁷⁹ “Eyeing Independence,” *The Economist*, July 20, 2007.

⁸⁰ “Russia to Increase Military Might and Spy Efforts,” *N.Y. Times*, July 26, 2007.

⁸¹ “Not Quite the Pact that was,” *The Economist*, Aug. 23, 2007.

⁸² “Georgia in Russian Attack Claim,” BBC, Aug. 7, 2007, <http://news.bbc.co.uk/2/hi/europe/6934354.stm>.

⁸³ “Ships, Subs and Missiles,” *The Economist*, Aug. 9, 2007.

⁸⁴ “Not Quite the Pact that was,” 81.

⁸⁵ “Gold Rush Under the Ice,” *The Economist*, Aug. 3, 2007.

⁸⁶ Andrew E. Kramer, “Russia Threatens Cut in Belarus Gas Supply,” *N.Y. Times*, Aug. 2, 2007.

⁸⁷ “Russia Tests Giant Fuel-Air Bomb,” BBC, Sept. 12, 2007, <http://news.bbc.co.uk/2/hi/europe/6990815.stm>.

October 2007 – After a meeting with EU leaders in Portugal, President Putin deems US attempts to deploy missile defenses in Europe “analogous” to the actions that provoked the Cuban missile crisis.⁸⁸ 2.5

October 2007 – Putin announces military modernization plans through the year 2015. They include: developing a next-generation fighter, new missile technology, upgrading aircraft, and deployment of new nuclear submarines. He summarizes the plans as “[not] just big, they are grandiose”.⁸⁹ 3.5

November 2007 – the lower house of the Duma votes to suspend the Conventional Forces in Europe treaty, which Putin later signs. The suspension takes place on December 12th.⁹⁰ 3.5

December 2007 – A Russian submarine test-fires a new ballistic missile in the Barents sea.⁹¹ 2.5

December 2007 – Iran reports that Russia is willing to sell it S-300 anti-aircraft missile systems. Russia denies the reports.⁹² 2.5

December 2007 – Russia ships nuclear fuel to Iran’s Bushehr nuclear plant.⁹³ 3.5

December 2007 – Russia’s foreign minister orders Britain to shut down its cultural offices in Moscow.⁹⁴ 2

December 2007 – Russia dispatches 11 ships, including an aircraft carrier, to the Mediterranean, to conduct exercises.⁹⁵ 3.5

⁸⁸ “Putin Meets With Europeans”, *N.Y. Times*, Oct. 27, 2007.

⁸⁹ Tony Halpin, “Valdimir Putin’s ‘Grandiose’ Plans Signal Start of New Nuclear Arms Race,” *Times (London)*, Oct. 19, 2007, <http://www.timesonline.co.uk/tol/news/world/europe/article2690183.ece>.

⁹⁰ “Putin Withdraws Russia From Major Arms Treaty,” *Washington Post*, Dec. 1, 2007.

⁹¹ “Russia: Ballistic Missile Test-Fired,” *N.Y. Times*, Dec. 26, 2007.

⁹² “Iran: Russia Denies Planning Missile System,” *N.Y. Times*, Dec. 29, 2007.

⁹³ “Russia Delivers its Nuclear Fuel to Plant in Iran,” *N.Y. Times*, Dec. 18, 2007.

⁹⁴ “Russia Tells Britain To Shut Cultural Offices,” *N.Y. Times*, Dec. 13, 2007.

⁹⁵ “Russia: Warships Sent To Mediterranean,” *N.Y. Times*, Dec. 6, 2007.

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