



## The Emerging Russian Giant: The US, Eurasia and Global Geopolitics

By F William Engdahl

Ironically, the aggressive Washington foreign policy of the era of Vice President Dick Cheney and Defense Secretary Donald Rumsfeld since 2001 has done more to nurture the one strategic combination in Eurasia most dreaded by Washington political realists such as Henry Kissinger or Zbigniew Brzezinski, namely a strategic military and economic cooperation on a deep, long-term basis between two former Cold War foes, China and President Vladimir Putin's Russia.

Putin has taken a number of steps in recent months to shore up relations with Russia's most important potential strategic Eurasian partner, China. In March he went to Beijing to discuss increased bilateral energy cooperation, a theme dear to the heart of energy-hungry China. Top on that agenda was China's wish that a pipeline from Taishet in Siberia be built to bring oil to Daqing in China. In addition, the China National Petroleum Co (CNPC) and the Russian Rosneft oil company signed several agreements for joint energy projects. And Gazprom and CNPC signed a memorandum of understanding to supply Russian natural gas to China.

With Sudan and the Middle East under increasing pressure from the United States, Sino-Russian energy cooperation has moved to the top of China's foreign-policy agenda. At the end of this month, Russia and China will meet again in Moscow to discuss further energy cooperation.

As well, Russia is a major supplier of arms to China, and military cooperation between the two states is increasing. In 2001 the two signed the Russia-China Friendship and Cooperation Treaty, the first such bilateral treaty since 1950. A major point covered "joint actions to offset a perceived US hegemonism". That was two months before September 11 and the ensuing Iraq invasion. In August 2005 the two countries held their first joint military exercises to increase bilateral coordination in "fighting the war on terrorism".



Chinese tanks and marines in amphibious exercise with Russian troops

They realize more than one can play the game. In May, Russian Defense Minister Sergei Ivanov hosted the chief of staff of the People's Liberation Army and discussed increased cooperation in the context of Russia's and China's leading role in the Shanghai Cooperation Organization (SCO). Russia will increase deliveries of selected military technology to China as well as train Chinese military at the institutes of the Russian Ministry of Defense.

With this bilateral cooperation in mind, a broader look at Russia's use of energy to build a counterweight to US dominance in Eurasia is instructive.

### Russian energy geopolitics

In terms of overall standard of living, mortality and economic prosperity, Russia today is not a world-class power. In terms of energy, it is a colossus. In terms of landmass, it is still the single largest nation in the world. It has vast territory and vast natural resources, and it has the world's largest reserves of natural gas, the energy source currently the focus of major global power plays. In addition, as documented in detail below, it is the only power with the military capability to challenge the United States, despite the collapse of the Soviet Union and subsequent deterioration of the Russian military.

Russia has more than 130,000 oil wells and some 2,000 identified oil and gas deposits, of which at least 900 are not being exploited. Oil reserves have been estimated at 150 billion barrels, similar perhaps to Iraq. They could be far larger but have not yet been exploited because of the difficulty of drilling in some remote Arctic regions. Oil prices above US\$60 a barrel begin to make it economic to explore in those remote regions.

Currently, Russian oil products can be exported to foreign markets by three routes: Western Europe via the Baltic Sea and Black Sea; the northern route; the Far East to China or Japan and East Asian markets. Russia has oil terminals on the Baltic at St Petersburg and a newly expanded oil terminal at Primorsk. There are additional oil terminals under construction at Vysotsk, Batareynaya Bay and Ust-Luga.



Russia's state-owned natural-gas pipeline network, its so-called "unified gas-transportation system", includes a vast network of pipelines and compressor stations extending more than 150,000 kilometers across Russia. By law only the state-owned Gazprom is allowed to use the pipelines. The network is perhaps the most valued Russian state asset outside the oil and gas itself. Here is the heart of Putin's new natural-gas geopolitics and the focus of conflict with Western oil and gas companies as well as the European Union, whose energy commissioner, Andras Piebalgs, is from new North Atlantic Treaty Organization (NATO) member Latvia, formerly part of the Soviet Union.

In 2001, as it became clear in Moscow that Washington would find a way to bring the Baltic republics into NATO, Putin backed the development of a major new oil port on the Russian coast of the Baltic Sea in Primorsk at a cost of \$2.2 billion. This project, known as the Baltic Pipeline System (BPS), greatly lessens export dependency on Latvia, Lithuania and Poland. The Baltic is Russia's main oil-export route, carrying crude oil from Russia's West Siberia and Timan-Pechora oil provinces westward to the port of Primorsk on the Gulf of Finland. The BPS was completed in March with capacity to carry more than 1.3 million barrels per day of Russian oil to Western markets in Europe and beyond.

Also in March, former German chancellor Gerhard Schroeder was named chairman of a Russian-German consortium building a natural-gas pipeline going some 1,200km under the Baltic Sea. Majority shareholder in this North European Gas Pipeline (NEGP) project, with 51%, is the Russian state-controlled Gazprom, the world's largest natural-gas company. The German companies BASF and E.ON each hold 24.5%. The project, estimated to cost 4.7 billion euros (\$5.8 billion), was started in late 2005 and will connect the gas terminal at the Russian port city of Vyborg on the Baltic near St Petersburg with the Baltic city of Greifswald in eastern Germany.



Gazprom's Moscow Office

The Yuzhno-Russkoye gas field in West Siberia will be developed in a joint venture between Gazprom and BASF to supply the pipeline. It was Gerhard Schroeder's last major act as chancellor, and provoked howls of protest from the pro-Washington Polish government, as well as Ukraine, as both countries stood to lose control over pipeline flows from Russia. Despite her close ties to the US administration of President George W Bush, Chancellor Angela Merkel has been forced to swallow hard and accept the project. Germany's industry is simply dependent on the Russian energy import. Russia is by far the largest supplier of natural gas to Germany.

The giant Shtokman gas deposit in the Russian sector of the Barents Sea, north of Murmansk, will ultimately also be a part of the gas supply of the NEGP. When completed in two parallel pipelines, NEGP will supply Germany up to 55 billion cubic meters more a year of Russian gas.



Map of Eurasia and the Arctic

In April the Putin government announced the first stage of construction of the East Siberia-Pacific Ocean Pipeline (ESPO), a vast oil pipeline from Taishet in the Irkutsk region near Lake Baikal in East Siberia to Perevoznaya Bay on Russia's Pacific Ocean coast, to be built at a cost of more than \$11.5 billion.

Transneft, the Russian state-owned pipeline company, will build it. When finished, it will pump up to 1.6 million barrels per day of oil from Siberia to the Russian Far East and, from there, on to the energy-hungry Asia-Pacific region, mainly China. The first stage is due to be completed by the end of 2008. In addition, Putin has announced plans to construct an oil refinery on the Amur River near the Chinese border in Russia's Far East to allow sale of refined products to China and Asian markets. At present the Siberian oil can only be delivered to the Pacific via rail.

For Russia, the Taishet-to-Perevoznaya route will maximize its national strategic benefits while taking oil exports to China and Japan into account at the same time. In the future, the country will be able to export oil to Japan directly from the Nakhodka port. Oil-import-dependent Japan is frantic to find new secure oil sources outside the unstable Middle East.

The ESPO can also supply oil to the Republic of Korea and the Democratic People's Republic of Korea, by building from Vladivostok branch lines leading to the two countries and to China via a branch pipe between Blagoveshchensk and Daqing. The Taishet route provides a clear roadmap for energy cooperation between Russia and China, Japan and other Asia-Pacific countries.

#### Sakhalin: Russia reins in Big Oil

Late last month a seemingly minor dispute exploded and resulted in the revocation of the environmental permit for Royal Dutch Shell's Sakhalin II liquefied-natural-gas project, which had been due to deliver LNG to Japan, South Korea and other customers by 2008. Shell is the lead energy partner in an Anglo-Japanese oil and gas development project on Sakhalin, a vast Russian island north of Hokkaido, Japan.



Sakhalin Natural Gas

At the same time, the Putin government announced that environmental requirements had also not been met by ExxonMobil for its De Kastri oil terminal built on Sakhalin as part of its Sakhalin-I oil and gas development project. Sakhalin-I contains an estimated 8 billion barrels of oil and vast volumes of gas, making the field a rare "super giant" oil find, in geologists' terminology.

In the early 1990s the government of Russian president Boris Yeltsin made a desperation bid to attract needed investment capital and technology into exploiting Russian oil and gas regions at a time when the government was broke and oil prices very low. In a bold departure, Yeltsin granted US and other Western oil majors generous exploration rights to two large oil projects, Sakhalin-I and Sakhalin-II. Under a production sharing agreement (PSA), ExxonMobil, lead partner of the Sakhalin-I oil project, got tax-free Russian concessions.

Under the terms of these agreements, which are typical between major Anglo-American oil majors and weak Third World countries, Russia's government would get paid for the oil and gas rights by receiving a share of eventual oil or gas produced. But the first drops of oil to Russia would flow only after all project production costs had first been covered.

PSAs were originally developed by Washington and Big Oil to facilitate favorable control by the oil companies of large oil projects in Third World countries. The major US oil giants, working with the James Baker Institute, which drafted Dick Cheney's 2001 Energy Task Force Review, used the PSA form to regain control over Iraq's oil production, hidden behind the facade of an Iraqi state-owned oil company.

Shortly before the Russian government told ExxonMobil it had problems with its terminal on Sakhalin, ExxonMobil had announced yet another cost increase in the project. ExxonMobil, whose lawyer is James Baker III, and which is a close partner to the Cheney-Bush White House, announced a 30% cost increase, something that would put off even further any Russian oil-flow share from the PSA.

The news came on the eve of ExxonMobil plans to open an oil terminal at De Kastri on Sakhalin. The Russian Environment Ministry and the Agency for Subsoil Use suddenly announced that the terminal did "not meet environmental requirements" and is reportedly considering halting production by ExxonMobil as well.

Britain's Royal Dutch Shell under another PSA holds rights to develop the oil and gas resources in the Sakhalin II region, and build Russia's first LNG project. The \$20 billion project, employing more than 17,000 people, is 80% complete. It's the world's largest integrated oil-and-gas project, and includes Russia's first offshore oil production, as well as Russia's first offshore integrated gas platform.

The clear Russian government moves against ExxonMobil and Shell have been interpreted in the industry as an attempt by the Putin government to regain control

of oil and gas resources Russia gave away during the Yeltsin era. It would dovetail neatly with Putin's emerging energy strategy.

### **Russia-Turkey Blue Stream gas project**

Last November, Russia's Gazprom completed the final stage of its 1,213km, \$3.2 billion Blue Stream gas pipeline. The project brings gas from its fields in Krasnodar, then by underwater pipelines across the Black Sea to the Durusu Terminal near Samsun on the Turkish Black Sea coast. From there the pipeline supplies Russian gas to Ankara. When it reaches full capacity in 2010, it will carry an estimated 16 billion cubic meters gas a year.



Russian Natural gas fields to supply Turkey

Gazprom is now discussing transit of Russian gas to the countries of southern Europe and the eastern Mediterranean based on new contracts and new volumes. Greece, southern Italy and Israel all are in some form of negotiation with Gazprom to tap gas from the Blue Stream pipeline across the territory of Turkey.

A new route for the gas supply is being developed now - the one via the countries of East and Central Europe. The interim title of the project is the South European Gas Pipeline. The main issue here is to establish a new gas-transmission system, both from Russian origin and from the third countries.

In sum, not including the emerging potentials of Gazprom's entry into the fast-developing LNG markets globally, involving oil and gas and nuclear sources, is at the heart of Russian attempts to build new economic-alliance partners across Eurasia in the coming showdown with the United States.

### **US plans for 'nuclear primacy'**

The key to the ability of Putin's Russia to succeed is its ability to defend its Eurasian energy strategy with a credible military deterrent, to counter Washington's now-obvious military plans for what the Pentagon terms "full-spectrum dominance". In a revealing article titled "The rise of US nuclear primacy" in the March/April, 2006 Foreign Affairs, the magazine of the Council on Foreign Relations, authors Kier Lieber and Daryl Press made the following claim:

Today, for the first time in almost 50 years, the United States stands on the verge of attaining nuclear primacy. It will probably soon be possible for the United States to destroy the long-range nuclear arsenals of Russia or China with a first strike. This dramatic shift in the nuclear balance of power stems from a series of improvements in the United States' nuclear systems, the precipitous decline of Russia's arsenal, and the glacial pace of modernization of China's nuclear forces. Unless Washington's policies change or Moscow and Beijing take steps to increase the size and readiness of their forces, Russia and China - and the rest of the world - will live in the shadow of US nuclear primacy for many years to come."

The US authors claim, accurately, that since the collapse of the Soviet Union in 1991, Russia's strategic nuclear arsenal has "sharply deteriorated". They also conclude that the United States is, and has been for some time, intentionally pursuing global nuclear primacy. The September 2002 Bush administration National Security Strategy explicitly stated that it was official US policy to establish global military primacy, an unsettling thought for many nations today given the recent actions of Washington since the events of September 2001.

One of Defense Secretary Rumsfeld's priority projects has been the multibillion-dollar construction of a US missile defense. It has been sold to US voters as a defense against possible terror attacks. In reality, as has been openly recognized in Moscow and Beijing, it is aimed at the only two real nuclear powers, Russia and China.

The Foreign Affairs article points out, "The sort of missile defenses that the United States might plausibly deploy would be valuable primarily in an offensive context, not a defensive one - as an adjunct to a US first-strike capability, not as a stand-alone shield. If the United States launched a nuclear attack against Russia (or China), the targeted country would be left with a tiny surviving arsenal - if any at all. At that point, even a relatively modest or inefficient missile-defense system might well be enough to protect against any retaliatory strikes, because the devastated enemy would have so few warheads and decoys left."

In the context of a United States that has actively moved the troops of its NATO partners into Afghanistan and now Lebanon, and which is clearly backing the former Soviet member-state Georgia in its conflict with Russia, today a critical factor in the Caspian Baku-Tbilisi-Ceyhan oil pipeline, to join NATO and push Russian troops away, it is little surprise that Moscow might be just a bit uncomfortable with the US president's promises of spreading democracy through a US-defined Greater Middle East.

The term "Greater Middle East" is the invention of various Washington think-tanks close to Cheney, including his Project for the New American Century, to refer to the non-Arabic countries Turkey, Iran, Israel, Pakistan, Afghanistan, the Central Asian countries, Azerbaijan, Georgia and Armenia. At the Group of Eight summit in the summer of 2004, Bush first officially used the term to refer to the region included in Washington's project to spread democracy in the region.

On October 3 this year, the Russian Foreign Ministry warned that Moscow would "take appropriate measures" should Poland deploy elements of the new US missile defense system. Poland is now a NATO member. Its defense minister, Radek Sikorski, was a former Resident in Washington at the hawkish American Enterprise Institute think-tank. He was also executive director of the New Atlantic Initiative, a project designed to bring the former Warsaw Pact countries of Eastern Europe into NATO under the guise of spreading democracy. The United States is also building, via NATO, a European missile defense system.

The only conceivable target of such a system would be Russia, in the sense of enabling a US first-strike success. Completion of the European missile defense system, the militarization of the entire Middle East, the encirclement of Russia and of China from a connected web of new US military bases, many created in the name of the "war on terror", all appear to the Kremlin as part of a deliberate US strategy of "full-spectrum dominance". The Pentagon refers to it also as "escalation dominance", the ability to win a war at any level of violence, including a nuclear war.

Integral to this strategy is a new US policy of militarization of space, part of the Pentagon's total-spectrum dominance policy. Bush authorized a new US National Space Policy on August 31, 2006, which establishes that the conduct of US space programs and activities shall be a top priority. It is part and parcel of the Bush administration's defense strategy.



The new policy document declares that the US will "take those actions necessary to protect its space capabilities; respond to interference; and deny, if necessary, adversaries the use of space capabilities hostile to US national interests". It will not let any international body or treaty hinder its militarization of space: "The United States will oppose the development of new legal regimes or other restrictions that seek to prohibit or limit US access to or use of space. Proposed arms-control agreements or restrictions must not impair the rights of the United States to conduct research, development, testing, and operations or other activities in space for US."

That would be a little more comforting were it not for the bizarre way in which people in Washington these days define "national interest", in contrast to the interest of the world community.

### **Moscow's military status**

Moscow has not been entirely passive in the face of this growing reality. In his May 2003 State of the Nation address, Vladimir Putin spoke of strengthening and modernizing Russia's nuclear deterrent by creating new types of weapons, including some for Russia's strategic forces, which will "ensure the defense capability of Russia and its allies in the long term". Russia stopped withdrawing and destroying its SS-18 MIRVed (multiple independent re-entry vehicle) missiles once the Bush administration unilaterally declared an end to the Anti-Ballistic Missile treaty, and its de facto annulling of START II (Strategic Arms Reduction Treaty).



Russian SS-18 missile

Russia never stopped being a powerful entity that produced state-of-the-art military technologies - a trend that continued from its inception as a modern state. While its army, navy and air force are in derelict condition, the elements for Russia's resurgence as a military powerhouse are still in place. Russia has been consistently fielding top-notch military technology at various international trade shows, and has been effective in demonstrating its capabilities.

In spite of financial and economic difficulties, Russia still produces state-of-the-art military technologies, according to a 2004 analysis by the Washington-based think-tank Power and Interest News Report. One of its best achievements after the dissolution of the Soviet Union has been its armored fighting vehicle BMP-3, which has been chosen over Western vehicles in contracts for the United Arab Emirates and Oman.

Russia's surface-to-air missile systems, the S-300 and its more powerful successor the S-400, are reported to be more potent than US-made Patriot systems. The once-anticipated military exercise between the Patriot and the S-300 never materialized, leaving the Russian complex with an undisputed, yet unproven, claim of superiority over the US system. Continuing this list is the Kamov-50 family of military helicopters that incorporate the latest cutting-edge technologies and tactics, making them an equal force to the best Washington has. European helicopter-industry sources confirm this.

In recent joint Indo-American air force exercises, where the Indian Air Force was equipped with modern Russian-made Su-30 fighters, the IAF outmaneuvered US-made F-15 planes in a majority of their engagements, prompting US Air Force General Hal Homburg to admit that Russian technology in Indian hands has given the USAF a "wake-up call". The Russian military establishment is continuing to design other helicopters, tanks and armored vehicles that are on par with the best that the West has to offer.

Weapons exports, in addition to oil and gas, have been one of the best ways for Russia to earn much-needed hard currency. Russia is the second-largest worldwide exporter of military technology after the United States. At present, Russia's modern military technology is more likely to be exported than supplied to its own armies because of the financial constraints and limitations of Russia's armed forces.

This has implications for America's future combat operations, since practically all insurgent, guerrilla, breakaway or terrorist armed formations across the globe - the very formations that the United States will most likely face in its future wars - are fielded with Russian weapons or its derivatives.

The Russian nuclear arsenal has played an important political role since the end of the Soviet Union, providing fundamental security for the Russian state.

After a bitter intra-services fight that lasted from 1998 to 2003, the Russian General Staff realized along with the Defense Ministry that a further policy of neglect of nuclear forces in favor of funding the rebuilding of conventional forces in the face of tight budget constraints was not tolerable. In 2003 Russia had to buy from Ukraine strategic bombers and intercontinental ballistic missiles warehoused there.

Since then, strategic nuclear forces have been a priority. Today the finances of the Russian state, thanks largely to high prices of oil and gas exports, are on a strong footing. The Russian central bank has become one of the five largest dollar holders, with reserves of more than \$270 billion. The material foundation of the Russian military is its defense industry. After 1991 the Russian Federation inherited the bulk of the Soviet defense industrial complex.

Today, with little fanfare, the US is building up its influence and military presence in the Middle East despite a general draw-down in its military commitments and expenditures. It is putting huge resources into the countries on the periphery of the Russian heartland of Eurasia. Why? Oil is a large part of the answer - but oil seen in geopolitical terms. The ultimate game, where the stakes are the highest, is to render permanently impotent the Eurasian land power, Russia, to control its access to the seas and to China - just as Halford Mackinder, "the father of geopolitics", argued.

The push for US nuclear primacy over Russia is the factor in world politics today that has the greatest potential for bringing the world into a World War III, a nuclear conflagration by miscalculation.

The SCO was founded several years ago by Russia and China to bring together select Eurasian countries for common dialogue. Its stated goal initially was to

facilitate "cooperation in political affairs, economy and trade, scientific-technical, cultural, and educational spheres as well as in energy". Iranian President Mahmud Ahmadinejad was invited as an honored observer last June, and Iran is being encouraged by Russia and China to join the SCO.

Today the SCO remains on the surface a rather amorphous discussion forum. Given a bit more provocation from Washington and NATO, that could change rapidly into the core of a broader Eurasian military and energy alliance to counter US nuclear primacy. The nightmare of Halford Mackinder would be fulfilled, ironically, largely because of the unilateral and aggressive foreign policy of an overconfident United States.

The basic argument of Mackinder's geopolitics is still relevant: "The great geographical realities remain: land power versus sea power, heartland versus rimland, center versus periphery ...". This Russia understands every bit as much as Washington.

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*F William Engdahl is author of the book [A Century of War: Anglo-American Oil Politics and the New World Order](#). He has completed a soon-to-be published book on genetically modified organisms titled *Seeds of Destruction: The Hidden Political Agenda Behind GMO*. For the complete two part article, and to contact the author, go to his website, [www.engdahl.oilgeopolitics.net](http://www.engdahl.oilgeopolitics.net).*

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