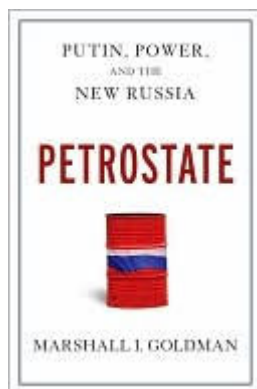




## Petrostate: Putin, Power, and the New Russia

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### Introduction

**JOANNE MYERS:** I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I'd like to welcome our members and guests and thank you all for joining us.

Today we're extremely pleased to have with us a very distinguished professor of Russian economy and politics, Marshall Goldman.

Although oil has always been associated with the Middle East and the economy of the region, large petroleum deposits in Russia have also played an important role in Russia's economic and political life, as well as affecting its international standing. Today, with oil prices higher than ever, the availability of sources, and the West's desire to reduce reliance on Middle Eastern suppliers, it is easy to understand why Russian oil has become a highly prized commodity. As a result, Russia is now wielding its mammoth reserves of oil and natural gas as an economic, political, and diplomatic weapon. In turn, they are reaping huge benefits and accumulating large cash reserves.

Yet, it was only a decade ago that Russian officials were seeking bailouts from foreign lenders, as their country careened toward default. But now, thanks to a steely new leader and a powerful economic rebound fueled by surging prices for Russian exports of oil, Moscow has paid off most of its foreign debts and boasts a reserve of over half-a-trillion dollars. This turn of events has not only brought it wealth, but a new-found political clout as well.

But would Russia have been different if [Putin](#) had not become his country's leader? No one expected just how brilliant a politician Putin would be when [Boris Yeltsin](#) appointed him as acting president in 1999. Once in power, Mr. Putin vowed to restore Russia as a great nation and to prevent corrupt politicians and greedy businessmen from dragging the country down.

In [Petrostate](#), our guest this morning writes about Russia, Putin, and ups and downs of the Russian energy sector. Professor Goldman describes Putin's efforts to shrewdly renationalize Russian industries into state companies, as a way of merging state interests with private-sector capabilities. He explains how Putin, by appointing loyal former colleagues, not only to the most senior positions in the government but also to lucrative posts in Russian industry, helped to ensure that these officials would carry out the bidding of the state.

For example, President [Medvedev](#) was not only First Deputy Prime Minister before becoming President of Russia, but he was also the Chairman of the Board of Directors of [Gazprom](#), the world's third-largest corporation.

As you peruse Professor Goldman's c.v., it will be apparent that he is one of the leading figures in the study of Russian economy and politics. His longtime affiliation with Russia, which includes living, traveling, and teaching there, combined with his extensive research, including interviews with Mr. Putin, easily qualifies him to talk about Russia's rise as a global power.

As a frequent visitor to Russia, Professor Goldman has been present at many of its more historic moments, reporting back with astute analysis of events as they unfolded. His observations in Petrostate are no exception.

With the rising importance of the Russian oil-and-gas industry, world leaders are growing increasingly worried about the Kremlin's control of the Russian economy and its accompanying commercial and political power abroad.

But with recent reports that outputs of Russian oil are now in decline, how concerned should we be with the rise of Russia?

To address this issue and to unravel the intriguing story of Russia's use of petro-assets in pursuit of self-interested policies, please join me in giving a very warm welcome to our guest this morning, Professor Goldman.

## Remarks

**MARSHALL GOLDMAN:** She read the book. There's not much more to say, but I'll say it anyway.

Petrostate—my wife said, "Look, you're going to confuse people. Either they're going to be thinking of Saudi Arabia or prostate." But it's not.

I am going to do something that drives me crazy when other people do it—read from their own book. For God's sakes, haven't you read it before? Yes, I have. But I have to explain why I'm doing this.

I used an agent for the first time in my life. She said, "You know, this is not a textbook. You can't tell people to read it and you're going to give them an exam. So you've got to make them want to read it. So do something that will make it interesting."

I said, "But if I do that, I'll lose my license as an economist." That was really beyond my normal way of work. But I said, "I'm going off to Russia. I've been going to this group called the Valdai Hills Group, run by one of the press agencies, and they take us to meet people. At the end, the climax has always been meeting with Putin, now for four times. They are going to take us out to the oilfield, which is like a dream coming true, because I wouldn't have been able to go out there on my own. So maybe I'll find something when I go out to the oilfield."

Well, it didn't seem to work out. It was too contrived.

But then they took us to Gazprom headquarters. Gazprom is, you'll hear, the world's second-largest corporation, Russia's largest corporation.

I said, "This is just spooky." So I'm going to just read this—it won't be long—and see if you get the feel for what's going on there.

The author is James Bond. That's the title, so it's also fantasy. An economist being James Bond—who are you kidding? Anyway, the author is James Bond. At first, I was puzzled. Where were they taking us? For such a big, sleek, glass Moscow high-rise—if you've seen the building, you know it's in the southwest part of the city. It stands out. There aren't that many—well, now there are, but originally when it was built, it was really quite unique—Gazprom's high-rise.

"Gazprom's elevator in its headquarters building was tiny—five people could barely squeeze in—and its hall corridors narrow. This was, after all, the world's largest producer of natural gas, not to mention Russia's largest company. Following a short walk, we were ushered into a dark and silent room where nothing seemed to be happening. Strange.

It was only when all the members of our group had made their way up on the elevators that the room suddenly came alive. Then, for a time, I felt as if I had wandered into a NASA space center. Or was it a James Bond movie set? All that was missing was that out-of-body voice intoning, "Welcome, Mr. Goldman. We were expecting you"—if you've seen James Bond.

In front of me, covering the whole 100-foot wall of the room, was a map with a spider web-like maze of natural gas pipelines reaching from east Siberia west to the Atlantic Ocean, and from the Arctic Ocean south to the Caspian and Black Seas. Manipulating this display, with all the lights blinking and the gas moving, were Gazprom dispatchers, three men controlling the flow of Gazprom's gas to east and west European consumers of this Russian natural gas monopoly. No wonder there was tight security.

There was also a sense of self-assurance, as measured by the value of its corporate stock. By the summer of 2006, Gazprom, the state-dominated joint stock company—until 1992, it was actually the Soviet Ministry of the Gas Industry—had become the world's third-largest corporation. Only private-shareholder-owned Exxon/Mobil and General Electric were larger.

Today it's actually number two. General Electric's stock has fallen. Gazprom is number two in terms of its

capitalized value. Absolutely stunning.

Okay, one more sentence and that's it:

With the flick of a switch, those dispatchers sitting in the Moscow room could freeze—and, indeed, have frozen—entire countries. At the very least, they could send their citizens off in a panic in search of sweaters, scarves, and blankets.

Then, to my amazement—it's the first book I've ever had a picture, because I was looking in *Time* magazine, and there was this dispatcher, really looking like if you've seen pictures of NASA. That's exactly what it is, with all those lights. So this is what you go in and you see. It's just remarkable.

On your tables there should be a few copies of some handouts. I know there are not enough for everyone. You may want to share one. I am going to refer a lot to the four tables that are here.

The first one is Russian Oil Production and GDP, which summarizes in a way the transition that Russia has gone through. The dark lines are GDP. You can see what was happening in the early 1990s. The GDP is dropping at 14.5 percent, 10 percent. The drop diminishes, but it is still dropping. The GDP is shrinking each year, except for 1997, the slight increase; and then of course 1998, just a little more than 10 years, is when the great crash takes place.

That has also affected us. Remember Long-Term Capital Management, the hedge fund in Greenwich. Also, our stock market went down 20 percent in an echo effect of this kind of thing. Long-Term Capital Management had problems because they were lending money to others who were investing in Russia.

In 1998, the Russian government defaulted on its debt. The bank's major asset was Russian debt, bonds. They were worthless, so the banks declared a holiday. They closed down. They disappeared. People lost their savings. The ruble collapsed in the middle of all that, and Russia was effectively bankrupt. There was nothing in the Treasury. That's less than 10 years ago. So the country was effectively bankrupt then.

Today, you can see what was taking place later on as it begins to grow; at rates of 7-to-8 percent cumulative over 10 years, because of compound interest, that's a doubling of the GDP.

What is significant for the book and for me, and for Russia even more importantly, is that Putin is appointed prime minister by Yeltsin in August 1999, just right after that crash. In a sense—three or four people became prime minister that year—Yeltsin is looking for some way to move the country out of it.

So you can understand why the Russian people are so appreciative of Putin. He comes in, the country turns around. Indeed, that's why he gets 70-80 percent approval ratings in this kind of situation.

So the question that I am really going to look at: Would Russia be any different today if Putin had not been appointed prime minister at that time?

Now, I've lectured long enough in my life to know that at the beginning of any lecture, particularly mine, people pay attention. By the middle of the lecture, you have other things to think about ("What am I going to do next?"). By the end of the lecture, "When the hell is he going to finish so I can go about my next business?" So you won't be awake to hear the answer to the question, so I'll tell you the answer to the question now and then you can do whatever you want to do in the interim.

The answer is yes, Russia would be different, but not because of Putin. Russia would be as rich as it is, but that's besides Putin.

I tell my wife, "Look, if I had been in those circumstances and had been appointed the prime minister, even I would have been able to preside over the country, largely because oil prices at that time were \$10-to-\$12 a barrel, and now, as you know, they're \$120-\$125-\$130 a barrel." In a country which is the world's largest producer of petroleum, larger than Saudi Arabia, that's when you know you're going to benefit from that transition.

Nonetheless, Putin did make some major changes, and I am going to talk a little bit about that.

What did he do?

Well, he understood what the problem was. If you look at this diagram again, you can see what takes place. The light shaded line is oil production. Then you can see how oil production is dropping in this period. By the way, you don't see this in social science normally, where, without fail, when oil production drops, GDP drops. It's not the

other way around. When oil production goes up even a slight amount, GDP goes up. And if you factor in oil price changes—in other words, just look at total revenue, if I were to plot total revenue here for oil—it would be even a closer relationship. So it is just uncanny where you have this kind of problem and situation.

So, unless you can tell me that Putin is the reason for oil production recovery, then I can't give credit to Putin. The reason for oil production recovery, as I try to argue—and I'm not the only one who has argued this way—is because oil prices rise. And, unless you can tell me that Putin is responsible for the change in oil prices, again he can't accept responsibility for that.

So what explains what is going on here? The problem is as oil prices are dropping, there is very little investment. People, indeed, are beginning to take their money out of Russia. The oil producers are taking their money out of Russia because to invest in Russia, invest in the sense of putting in new wells, in a country where the climate is so extreme and the working conditions so difficult, you've got to have high oil prices; otherwise it doesn't work.

So what was happening in the early period, oil prices were down, so the people who took over the oil companies at that point, or the oil resources at that point, decided to take their money out. They stripped the assets, as economists would say. They sent them to Zurich, to London, to New York, because let's buy an apartment here or in London or wherever you want to be, just outside the country.

As oil prices begin to rise, then it becomes you can make more money inside Russia with oil prices rising, in this kind of situation. So that's the main reason why things are beginning to change for this oil wealth that has accumulated.

On August 17, 1998, Russia was effectively bankrupt. There was nothing in the Treasury. Today Russia has resources in the Treasury: an accumulated stabilization fund, among other things, of close to \$500 million. So you see what the turnaround is. It is largely these kinds of phenomena.

Another explanation for what is going on here is that in the early 1990s what had been the petroleum industry was broken up and privatized. You had the new owners, some of whom had never seen an oilfield before.

[Mikhail Khodorkovsky](#), who took over [Yukos](#)—and I'll refer to him in a second in another context—describes how he went out to one of the oilfields. He met the mayor and said, "Can you take me out where the oilfields are? I just own the company, but I've never been out on an oilfield before."

So they stripped the assets. They didn't know what they were doing and they really didn't care. They were just using this as a way to accumulate wealth and transfer it to other sources.

So that's what was going on. That's why oil prices were falling and why production was falling, and what was creating this general chaos, which really looked like Russia was in a very difficult situation.

So what did Putin do? Well, you know, Putin is a very interesting guy. Again, since my wife is not here, fortunately, I can namedrop. We've had a chance to meet with him four times. Long sessions, twice in his home outside of Moscow, once in the Kremlin, and most recently on the Black Sea, the presidential home in Sochi.

He is very smart, he is very clever, and he is a very self-assured person. But he had some problems. You know, as a student in 1968, high school, coming up in Leningrad, he went to the Leningrad headquarters of the KGB and he knocked on the door and he said, "I'd like to join the KGB." They said, "Don't call us. We'll call you."

So then he went off to Leningrad University. He studied law. He became a lawyer. You could do that as an undergraduate student.

Then they did call him and he did join the KGB. After a few years, he was sent off to East Germany, where he served for a long time.

In 1989, when the Berlin Wall came down, suddenly there was no longer any welcome for the KGB officers. So he was unemployed.

He went back to Leningrad, which then shortly thereafter became Saint Petersburg. In the meantime, one of his teachers, a man by the name of [Anatoly Sobchak](#), became the mayor of Saint Petersburg and hired Putin to head the division in the governor's office dealing with foreign investors. That was traditionally a position held by a KGB officer. There he served. There are some people here, I think, who mentioned they had met him.

Then, he suddenly finds himself unemployed again because Sobchak loses the election. So in this interim, in the late 1990s, he begins to think of what else he would do. He decides to go for an advanced degree. It wasn't quite a Ph.D. degree, but it was more than a master's degree.

As part of that effort, he had to write a dissertation. We've gotten copies of it. Part of it has been published in a Russian journal. What he does is he engages in what you might want to say is a putdown, an academic exercise. The academic exercise is: What should Russia do to regain its status as a superpower? This is 1997 when he writes it. This is where Russia is heading; it's not really heading in the right direction.

It's as if he was writing a policy paper for a presidential candidate or something—not for himself. The possibility of his going to Moscow was zero at that point. The prospect of becoming a prime minister is even less possible. You just didn't do that in those days. You didn't bring in somebody from Saint Petersburg to run the country. They stayed there. It was very provincial. Much less them becoming not only prime minister but president.

And so in this dissertation he looks to see what can Russia do to regain its status as a superpower. He says: The only thing we can do is take what we have an advantage in. What's our comparative advantage? It's that we have lots of raw materials. And what we should do in a sense is maybe renationalize some of those products and put these in an entity which we can call "National Champions," to serve as an almost imperialist force on behalf of the state.

If you remember reading your Marxist literature in the early part of the 20th century, Exxon/Mobil or Standard Oil was considered an agent of the U.S. government. So what he's saying is we should have these entities serve to compete with groups like Exxon/Mobil. So he spells out these different things. It really is a very clever idea.

Now, the only trouble is that—I didn't discover this, but a man named [Clifford Gaddy](#) and his research assistant at the Brookings Institution discovered it—that this idea of national champions was plagiarized by Putin from two professors at Pittsburgh University whose book had been translated into Russian. Putin takes an entire 10-to-15 pages from that book and incorporates it. Well, you know, a different time, different standards. If you see Putin, you can ask him, "Did you really take it word for word?" But he did take it word for word, where he creates this notion.

Now look at the second page, which is really quite a stunning thing. Again, you can see Putin is elected president on his own, after serving as acting president for the first three months of 2000. Immediately, by June 2000, he begins to recast some of these entities that had been privatized and to make them into these national champions, serving Russia's interests.

So he takes Gazprom. Gazprom, as I said in the introduction, was originally the Ministry of the Gas Industry. It had been privatized by [Viktor Chernomyrdin](#). Chernomyrdin was the Minister of the Gas Industry prior to Yeltsin. Then he privatizes the ministry into Gazprom, takes a few shares for himself, leaves the state with about 36 percent of the shares.

Then they begin to strip assets. Where do they strip them? They strip them and send them off to corporations that they create that they wholly own, that they or their group wholly owns. Which one of these entities? It was a company called [Itera](#), which becomes Russia's second-largest producer of natural gas because of his picking up producing fields that are transferred to it from Gazprom.

I should say buy this book. It's the most fun I've ever had in my life. If I were to tell you it were fiction, you would say, "No, it's just too unrealistic. It can't be." But it's real, and here come the subplots that are hard to believe.

Where is Itera headquartered? Jacksonville, Florida. Why Jacksonville, Florida? Why not? It's warmer, it's outside of Russia, where you can have a little more assurance.

Now, what does any good red-blooded corporation do, particularly an energy corporation, once it's here? You get a lobbyist. You have to have a lobbyist. So what kind of lobbyist do they have? They hire a young woman, pay her a half-million dollars as a retainer. Only by coincidence is she the daughter of an American congressman. I mean where else do you get a lobbyist? And who is the American congressman? It's [Curt Weldon](#), who happened to be the congressman outside Philadelphia, a suburb of Philadelphia. Why Philadelphia? Well, you pick them where you can find them. It's not Jacksonville, but that's okay.

And what does Weldon do? Weldon hosts a reception for the Itera people in the Library of Congress. He goes down to Jacksonville to help them dedicate their new building. He arranges for the Export-Import Bank, our government bank, to provide them with an \$800,000 grant to develop gas fields in Russia, which is not normally what the Export-Import Bank is supposed to do. This is just an incredible kind of thing.

You remember two years ago there was this whole scandal about what the Department of Justice was doing leaking information about American congressmen who were Democrats, in the hope to provide more seats for the Republican Party. This information I have comes from the Department of Justice. The only complex issue here is

that Weldon is a Republican, not a Democrat. So somebody got their signals mixed.

They exposed this. He lost the election, and after ten terms he is now out. I don't know what he's doing, and I don't know if his daughter is still the lobbyist for Itera. But there we are.

Now, who owns Itera? Well, we don't know exactly. It's very opaque. But what we do know, as far as we can tell, is they took the relatives of the executives of Gazprom. If you go down to number four, you see [Vyakhirev](#) there, who succeeded Chernomyrdin as he became really the CEO of Gazprom. The two of them, their sons are, as far as we can tell, trustees of Itera. Their wives, their mistresses—what the heck; what difference does it make?—you have them all together there running this.

Now, here's the subplot on a subplot. Because they're stripping assets, the proceeds are not going to the investors. Some of you may even own shares in Gazprom. The government still has—well, then it had 38 percent—now it has more than 50 percent under Putin.

Anyway, so some of the investors decide that this is bad news for the investors. A man by the name of Boris Fyodorov, who was the Minister of Public Finance, then went into banking, setting up his own private bank, decided that Vyakhirev was stripping too many assets and that he should be removed by a proxy fight. So he launched an effort to try to remove Vyakhirev this way.

Vyakhirev took unkindly to that, not surprisingly, and suddenly Boris Fyodorov discovered that every newspaper in Moscow was attacking him for one reason or another. It was just across the board. Some allegations may have been true, but most of them were just simply off the mark, had nothing to do with reality.

Fyodorov gets a visit from some local Mafia types in Moscow. You know, the Mafia is very strong there—the Russian Mafia, not the Italian Mafia. They say, "Lay off Vyakhirev if you know what's good for you." He says, "No, I'm going to continue this." They next day he discovers his dog has been poisoned, just like out of [The Godfather](#)—not a horse, or whatever it is—and the dog is dead. Anyway, he has no success in getting rid of Vyakhirev.

Putin comes along, recognizing what's going on, in his effort to create this National Champion. So the following year, in May 2001, Vyakhirev is removed. Suddenly, all the attacks stop in the newspapers.

So Fyodorov comes around to them and says—you know, he was curious—"How did this whole thing get together?" The different editors, everywhere he went, said, "Here's our price list. If you want to attack somebody, let us know." He gave me a copy of the price list. I have the price list. So if you've got somebody in Moscow you want to do in, let me know and I can arrange it for you.

That's what was going on. It's a subplot on a subplot on a subplot.

Anyway, Putin reclaims Gazprom. He was able to do it. The state now owns more than 50 percent of Gazprom. There are still private shareholders.

And then he goes out after the others. You can see on the other side what I call the "upstart oligarchs," people who took in this case portions of what had been the Ministry of the Petroleum Industry and created separate oil companies.

The first one is [Gusinsky](#), who was not in the oil business, but he did create the one private TV network, NTV. Gusinsky had the poor judgment to attack Putin for his role in Chechnya, and ultimately he was thrown out, for a variety of reasons. He is now actually in exile here in the United States.

But [Boris Berezovsky](#), who was also threatened with jail but fled to London, did hold control over Sibnef. Sibnef was the second- or third-largest oil company. That was taken back and it was taken over by [Abramovich](#). Abramovich had been one of the oligarchs and turned over this firm to Gazprom and to [Rosneft](#).

Then you go down, of course, and there's Khodorkovsky, whom I referred to earlier.

In October, again, Putin is purging these people and reclaiming assets. Yukos is seized and it is transferred to Rosneft. That oilfield we went out to was original Yukos's and now it is part of Rosneft, and Rosneft now is Russia's largest oil company. So he is doing all these things. He has recreated this.

What is significant in this is how he managed to bring in his people. So if you go to the next page, called "Siloviki in Business." Silo is the Russian word for straight. The Russians use this as slang for law-and-order types. It would be the equivalent of if you took the leadership of the FBI, of the military, of the Pentagon—people who had served in government roles either as police or military. He brought these people in, pushing out people like



Khodorkovsky, people like Berezovsky.

Again, this is significant because, as you can see, these people hold two jobs simultaneously. When we meet with Putin, the group composition changes. By the fourth time, there are enough people there who have had continuity that they have mastered the hard questions and now they begin to ask puff questions. My feeling is you better ask the hard questions because you'll never have a chance like this again, and you don't know if you are going to be invited back next year anyway. So far I haven't.

So I asked about [Sechin](#). If you look at Sechin, this is really kind of illustrative of what is going on here. There are two marks by Sechin's name. He comes from Saint Petersburg. It's like when [Clinton](#) went to Washington he brought the Arkansas Mafia with him. Putin goes to Moscow, he brings the Saint Petersburg mafia, in a loose sense, with him. Sechin has two jobs at once. Sechin is the deputy head of the Kremlin administration; that's his day job. On the side he is the head of Rosneft, the chairman of the board of Rosneft.

So my question to Putin the last time around, last September, was: "Isn't this a mistake, because how can a man, no matter how good he is, handle two full-time jobs this way? Second of all, how can you expect Sechin to be impartial if an issue of how to deal with the oil company comes up before the Kremlin? He's going to certainly favor this. And third, you are going to create a new class of oligarchs."

Indeed, some people now have a phrase for it. They're called silogarchs—silo, the silovekian, and this. And indeed, you are getting these people. If you read *Forbes* magazine, you know that it has the listing of the world's billionaires. Russia now actually has the second-largest number, second only to the United States. They just eclipsed Germany. I don't want to hurt anybody's feelings in the room, but now Moscow has more than Manhattan has. They have about 75. New York only has 71. Sorry about that.

Remember, 10 years ago it was bankrupt, everybody was bankrupt there. So this is kind of the turnaround.

And then, something new on the bottom of the page, what are called princelings. My wife, a China specialist, uses this word to describe what happens to the children of the people in the Politburo in China. They are put into cushy business relationships. In the Soviet era this did not happen. The children of the Politburo members went into think-tanks so that they could travel, but money accumulation wasn't easy then.

Now look at the bottom, [Nikolai Patrushev](#), who until about a week ago was the head of the FSB [Federal Security Service of the Russian Federation], which was the successor to the KGB. Two sons, one working for one of the state banks, the other for Rosneft, Sechin's company. Again a very incestuous kind of arrangement.

So that's what is going on. Using these people as his people coming in, they are indeed pushing the others out.

Now let me just go to the last table. This is what's the heart of the book right now, this last table. The rest of it is fun. This last page really reflects what is happening.

I have been giving lectures about the oil sector and different things. I said: You know, I really should try to track down just how important Russia's role is. So I went to Littauer Library in Cambridge. There you can find the *International Energy Agency Handbook*. I was looking through it. I began to write down just how much natural gas the different countries in Europe were getting from Russia.

I went back to my office and I put together this table. I said: "Oh my God, this is just incredible. I have to do a book"—not that the world would miss something if I hadn't, but just because this was really so dramatic.

Oil brings in the money. The revenues are why Russia has been able to accumulate this \$500 billion.

But it's the gas that is politically strategic. If oil is cut off, it's inconvenient and it would be troublesome and prices will go up. But you can always find somebody else outside if you're willing to pay a high enough price. You find another tanker, find another pipeline, find another railroad car, find another tank truck. But if the gas is cut off, you don't have a standby gas pipeline sitting there.

We haven't got to the stage where liquefied natural gas (LNG) is traded on the spot market on a day-to-day basis. You can trade LNG, but you still have to do it a year in advance. And you've got to have a big infrastructure to do it, and not everybody wants an infrastructure of natural gas tanks in their backyard.

If any of you know Boston, it's very controversial. We don't want to build anything in the harbor because somebody will blow it up. It's the same kind of thing in Long Island Sound. They want to build a facility there to import the LNG and nobody wants it in their backyard.

And if you do build it, it is still going to cost you \$3 billion or so, and you just can't put \$3 billion aside for a rainy

day. And you can't have a standby pipeline for exactly the same reason.

So if you have that pipeline and you are dependent on it, you are cooked if it is turned off. [Ronald Reagan](#) understood that, believe it or not, and he did everything he could to prevent the Germans from building a natural gas pipeline from Russia. He finally convinced them. First of all, he prevented the sale of General Electric turbines, which they needed to move the gas, in an effort to sabotage the whole project. The Germans got them instead from England.

Then, the Germans understood there were problems, so they said, "We'll hold down our consumption to 25 percent of what we import." If you look at this table, you'll see it's 40 percent—and, indeed, it is up to 42 percent now. You have to understand that not only Germany but the other West European countries are vulnerable in much the same way.

France is not as bad, Italy is not as bad, because they're at the other end of the pipeline and they can rely on more of their gas from Algeria. But Germany is in the eastern end of the pipeline, and when it's cut off they are in difficulty. You know when the Russians reduced the sale of natural gas to Ukraine, the Ukrainians reduced the flow, and the Germans were caught this way. Indeed, this is now a problem for others. You go down to the bottom of the list, you see 100 percent.

That's why, when I read that earlier portion about cutting off the flow, the Gazprom dispatchers have just enormous power at their disposal this way. So it is a very important tool that Russia has, and the Russians understand that and Putin understands that.

I'll just end by reflecting on this new self-assurance that Putin has. He was asked at a press conference in February last year about his relationship with [George Bush](#). All four meetings that we've had with Putin, each time he refers to George Bush in the most complimentary way. I met once with George W. Bush, right before the G8 meeting last year, and he had nice things to say about Putin too.

If you look at the two of them and their body language when they are with each other, it's absolutely remarkable. There's a bonding that they have that you don't see between world leaders. And their wives. It really is quite remarkable.

So anyway, Putin was asked in February a year ago: What is your relationship with George Bush?

He said: "Well, George Bush is a man I can do business with."

I said, "By God, I've heard different characters, but I've heard that same phraseology before." Most of you are probably too young to remember, but it was [Margaret Thatcher](#) who would say, "Yes, I can do business"—before Gorbachev is made the general secretary and comes to England, she said, "Yes, I can do business with [Gorbachev](#)," that peasant from Stavropol"—she doesn't say "peasant from Stavropol," but there's that very patronizing tone.

So what is Putin saying? "Yes, I can do business with that cowboy from Crawford," in exactly that same kind of way. Again, a self-assurance.

The last example of that I am going to read from another press conference, which took place in June. Putin is asked by the correspondent from *Der Spiegel*:

"Mr. President, former Federal Chancellor [Gerhard Schröder](#) called you a pure democrat. Do you consider yourself as such?"

Now, again, the room is going to turn on its head. I am again reading from the transcript, translated into English.

**VLADIMIR PUTIN:** (he laughs) Am I a pure democrat? Of course I am, absolutely. But do you know what the problem is? It's not even a problem, but a real tragedy. The problem is that I'm all alone, the only one of my kind in the whole wide world.

Just look at what's happening in North America. It's simply awful—torture, homeless people, Guantanamo, people detained without trial and investigation. Just look at what's happening in Europe—harsh treatment of demonstrators, rubber bullets and tear gas used first in one capital then in another, demonstrators killed in the streets."

All true, but if you look behind you, you'll see exactly—



Then he ends with this priceless phrase:

"There's no one to talk to since [Mahatma Gandhi](#) died."

**JOANNE MYERS:** Thank you very much. I'm glad you ended on a peaceful note.

We'd like to open the floor to questions.

## Questions and Answers

**QUESTION:** You didn't say what Putin responded when you asked him those nasty questions at your last meeting. And what will be the response to your book in Russia?

**MARSHALL GOLDMAN:** First the second one. This agent I have - if you ever need an agent, let me recommend her. The book is being translated into Russian, so I will find out soon. And German, Japanese, and Estonian.

I don't know what the response will be in Russia. It's not entirely negative about Putin, because after all he's the savior of their country. But there are enough snide remarks in there. And I haven't gotten invited back this year to Valdai Hills, so I don't know.

But at the same time, to his credit, as these questions get softer and softer, the organizer of this whole series said, "You know, Marshall, if you didn't ask your hard questions, Putin says he would fall asleep."

I don't know. It will be very interesting to see. He does not like criticism. He sees himself, with this group of about 20 or 25 of us, as "Bring 'em on." You know, he wants to match wits. So we'll see.

Now, the book being translated into Russian may mean that there is going to be more awareness of some of this hanky-panky, in particular, and that may make it difficult. So I don't know.

I did not tell you what Putin's response was to the question about these matters because you are not going to like the answer. Putin said: "Well, okay. At some point we will have our own lawyers and bankers who can take over these things. But right now, if we were to have others taking over these companies, look what would happen. Harvard sent over two people to help the transition, and what happened? Well, the U.S. government found them guilty of conflict of interest and insider trading. So what difference have we made?"

He was alert enough to know that indeed—and he mentioned their names—[Andrei Schleifer](#) and [Jonathan Hay](#), both of whom were fined by the U.S. government for insider trading and fined \$2 million. As a consequence, Schleifer lost his chair at Harvard. He still is at Harvard. You asked. I didn't provoke you. So he's smart enough to know these things.

**QUESTION:** I've read that either Putin or somebody at the head of Gazprom has said that their objective is to make Gazprom the largest company in the world.

**MARSHALL GOLDMAN:** Yes.

**QUESTIONER:** I'm just wondering what do you think Putin's real role for Gazprom going forward is? Do you think they want to make it into sort of a Western-style profitable company, or is it going to be an arm of the state, or both, or what?

**MARSHALL GOLDMAN:** It's both. It is profitable, it's highly profitable, but it is using a lot of its resources to do different things, for which some of the stockholders have been quite critical.

One of the things as a National Champion—it's not only that you're advancing Russia's interests outside the country, but then that imposes a certain civic obligation on you. So Gazprom is one of the main financiers of the Sochi Olympics, and the stockholders are saying, "What's that all about? How is that going to benefit us as shareholders?"

There's the other aspect of it, and that is that there are all kinds of rumors that Putin himself has benefited financially and that his net worth is on the order of \$30 billion. There is somebody named [Belkovsky](#), who had been a Kremlin insider, who had asserted that. This was just recently.

Just because this was the final version of the book, I put that in there, against my wife's wishes. She said, "You shouldn't do that." But I flagged it to the editor and I said, "Should this be in here?" saying that it may be disinformation. He said, "Take it out." So it's not in the book. He said, "You don't have documentation"—and I didn't have documentation. He said, "You don't want people dismissing the book because it's just rumor and

slander." Slander's okay, but rumor—I've been sued by Russian oligarchs, and that's all right, although I lost my comprehensive insurance coverage in the process.

So we don't know. But I think it's pretty reasonable to assume that he has his hands in enough pots that he's going to come out of this all right.

**QUESTION:** What's your understanding of the relationship between Medvedev and Putin?

**MARSHALL GOLDMAN:** That's the longer lecture.

By the way, you'll see I didn't point to Medvedev on that table of all the oligarchs, the Siloviki. But Medvedev is there. He is, of course, the chairman of Gazprom, as you heard in the beginning of the lecture, and he has been chairman of Gazprom until just about a week ago. Of course, he has made out all right too. He was brought in as part of the governor's staff in Saint Petersburg. Then, when Putin went to Moscow, he was part of the Saint Petersburg Mafia. He is 12 years younger than Putin. He has served loyally.

It was a bit of a surprise that he was selected as president by Putin. I expected another man on that list, by the name of [Ivanov](#), who was the head of the FSB, a KGB agent, was the Minister of Defense. He was really a Siloviki.

The problem is that there were others, the Sechin faction and the Ivanov faction, and Putin may have assumed they would chop each other up so let's pick somebody completely outside.

Medvedev will serve loyally, although there are already some signs that he is trying to differentiate himself from Putin. One of the things he has done is he has just announced that he is creating a new commission on corruption of which he will be the chairman. That's a dig at Putin: "Look, under you the corruption got worse. How can that happen for a guy from the KGB who knows where all the secrets are? I've got to do something to point out that corruption has gotten worse and we've got to cure it."

So there should be tension. I suspect it will be like a father-and-son situation. After a while, after four years in particular, the old coot doesn't know what's going on. There can be tension there, because clearly Putin is doing everything he can to make sure that some of the sources of power are still in his hands. So Medvedev has got to find some way to get Putin off his back, just like if [Hillary](#) had been elected as the president, what to do with Bill, in that same way, just as a troublemaker there.

**QUESTION:** As a follow-up to that, there have been other changes as well in the personnel. Does it look to you as if there will be some liberalization in Russia, or do you think that there will be sort of a continuation of a trend toward authoritarianism?

**MARSHALL GOLDMAN:** Medvedev has been saying some things that could potentially suggest change. He has already said, for example, that these guys should not be wearing two hats. We'll just have to see.

As long as Putin is there—*The New York Times* had this article yesterday that they're cracking down on the news again. There are still some liberal voices—or not liberal voices, just open voices—at Ekho Moskvyy, the radio station, and some newspapers. But it gets more and more limited. I would like to hope that there will be more openness, particularly as Russia becomes more self-confident.

I was giving a talk last night. There was a Russian émigré in the room. She said, "We can't take all this loose talk." Democracy is a messy business, and you've got to have a lot of self-confidence to do this. I'd like to think, but I'm not overly optimistic—I don't think you're optimistic either—there should be better days, because the people deserve more. But I'm not all that confident.

**QUESTION:** What do you think that the Russians are going to do with the sovereign wealth that they've accumulated? Do you see them coming in and rescuing Wachovia or investing it abroad or domestically?

**MARSHALL GOLDMAN:** Yes, I do.

**QUESTIONER:** Both?

**MARSHALL GOLDMAN:** Well, some examples. Again, this was kind of the abridged version of the longer talk. Russians are investing in this country. [Lukoil](#), Russia's now second- or third-largest company, is right here in your backyard. There are Lukoil stations. They bought up the Getty Oil distribution network and Getty Oil stations are being transformed into Lukoil. Of course, Lukoil, in turn, is owned 20 percent by Conoco-Phillips, so who wears what? But Lukoil is probably the best example.

The metals industry is now being taken over more and more by Russian companies, which, by the way, I think is

very interesting, because nobody seems to care. I mean I'm happy that somebody's investing in our steel industry, instead of just letting it collapse. The River Rouge Plant is now owned by one of the Russian oil companies. Oregon Steel, which is one of our larger steel companies on the West Coast, is owned by a Russian company. The Bethlehem Steel plant in Sparrows Point is owned that way. Wheeling Steel is now owned by a Russian company. So the Russian investors, Russian metal companies, are buying up more and more.

[Deripaska](#), who is now Russia's richest oligarch, has been trying to buy up suppliers to General Motors, and owns 10 percent of one of the companies.

So yes, they are using this. They figure that's a better investment than buying U.S. government securities. They're like everybody else. Whether they go into the banks, I don't know. The Chinese tried to buy up an energy company in the United States and there were big protests. So far nobody has said a thing about the Russians. That's kind of an interesting thing to watch.

**QUESTION:** I'd like to hear from your wife [China scholar [Merle Goldman](#)]. You refer to her all the time.

**MARSHALL GOLDMAN:** Yes, me too.

**QUESTIONER:** I'm interested in the reliance issue, certainly with Slovakia and Hungary and the Baltic States. Do they have any alternatives? What are they thinking about? They're very vulnerable at this time.

**MARSHALL GOLDMAN:** Yes, there are alternatives. You could also ask what should the United States do in this.

One of the things that we have tried to do in a very low-key way, and not very successfully, is to try to find some way to provide alternative sources of supply. That's not very good.

But one way we have not been very successful is to go to Central Asia, particularly with natural gas. Central Asia, of course, at one point was part of the Soviet Union. So Turkmenistan, Uzbekistan, Kazakhstan— all are sources of not only oil but, in the case of Turkmenistan, gas.

One of the largest gas reserves in the world is located there. So far, the only way they can get their gas out to Western Europe—get it out of the country for that matter—has been through the Gazprom pipelines. In fact, what happens is Ukraine is, in effect, buying Turkmen gas. Gazprom pays the Turkmenists, until recently, \$50 per 1,000 cubic meters (now it's up to \$100), and they sell it then through to Germany at \$200 per cubic meter. So they act as the middleman.

There was a proposal to build a gas pipeline underneath the Caspian sea through to Azerbaijan, which has its own energy, then through the oil pipeline, which is already up, through Georgia, Turkey, and then out into the Mediterranean. For that reason, the Georgians are very vulnerable, because they are the territory—you know, the Russians have other reasons for being upset with Georgia and are doing everything they can to destabilize the country, to regain that control. So right now there has been a problem.

There hasn't been anybody willing to finance the building of that pipeline. So one of the things I advocate in the book is that we should provide some financial support to do that, because you've got to get the pipeline up. Otherwise suppliers will do it and customers won't sign themselves up.

And Putin, being very clever, the minute that [Dick Cheney](#), for example, goes to Kazakhstan and says, "You should support the building of an alternative pipeline for your own interest," Putin says, "You don't want to do that. They'll never build that pipeline. Ours is already up. Keep doing what you're doing. We'll give you a better price."

So try to find some way to get access to that energy without having to go through Russia. The Russians are going to do everything they can to sabotage them.

**QUESTION:** Professor Goldman, what do you think is going to happen to Mikhail Khodorkovsky, who is still languishing in jail? Do you think that Putin has enough self-assurance now to let him out, or do you think they are going to keep him in jail as an example of someone who goes in opposition?

**MARSHALL GOLDMAN:** I think that he's going to be there for a long time. He had—again, I describe this in the book—incredible arrogance on his part. Khodorkovsky openly acknowledged that he had controlled 100 votes in the Duma, and he was talking about selling half of Yukos or more to Exxon/Mobil or to Chevron.

One of his first deputies was arrested in July. He was in the United States. He went back home. He met with his lawyers. They say that Khodorkovsky and they had met together to talk about what would happen if Khodorkovsky were arrested, how they would help spring him from jail.

He thought he was tougher than Putin, and that has not been the case. So I don't think he is going to get out.

Medvedev has not indicated that. I think they view him as an example. Once that's done, then you don't really have to nationalize the oil companies; you can get these other people. What Putin wants, Putin gets. I don't think there are other people who are going to say anything otherwise. So I think he is there for the long haul.

**QUESTION:** [Oleg Kalugin](#), under whom Putin worked in Leningrad, indicated that Putin was appointed as prime minister under Yeltsin in order to protect Yeltsin and his entourage from prosecution, and he proved very adept at doing that.

Second, you've talked to some of the people that he has appointed as law-and-order people. But they come from the KGB and its successors, and they are very different from the FBI. There's a different way in which they operate. Now, do you think that in any way, as they continue to control various industries and companies in Russia, that they will attempt to achieve, in becoming a superpower, what the Soviet Union could not do militarily and ideologically?

**MARSHALL GOLDMAN:** Absolutely, absolutely. Putin himself said, "We are going to be back as a superpower." You hear this coming out from different people in Russia, how humiliating it was in the early 1990s, when the now-present governor of Saint Petersburg said, "We're sick and tired of being told what to do, particularly by Americans, so we want to go back to being a superpower." There's no doubt in my mind about that.

Of course, if you were Russian and you looked at the FSB and the KGB, they would say, "Well, these are people who defend us, and the FBI is corrupt." So it depends on where you look at it.

But yes, Putin in my mind was selected, after three or four attempts at trying to find a prime minister who would move ahead. From everything we can gather, the reason that Yeltsin picked Putin was because he promised immunity to the family.

They tell the story that Ivan drives his car into the Kremlin, gets out of the car, and a militiaman runs up to him. "You can't park your car there. That's right underneath Yeltsin's office."

"Don't worry. Don't worry. I've locked the car."

Well, it is again I think reflective of the atmosphere of corruption that was there and still persists.

**JOANNE MYERS:** Thank you very, very much.

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