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## Putin's Economic Weapons How Russia Uses Oil and Gas Companies as Economic Weapons?

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*Gazprom, Russia's state-owned energy company, remains a key economic tool in Russia's geopolitical strategy despite losing access to European markets due to the war in Ukraine. Since the early 2000s, Gazprom has acted as Russia's "energy weapon", using gas supplies to influence the policies of European countries. Europe's energy dependence on Gazprom provides huge leverage for Russia, as seen in the Nord Stream project and political pressure through the disconnection of gas supplies. However, the liquefied natural gas (LNG) revolution and energy market diversification have weakened Gazprom's dominance. The European Union is now more reliant on LNG from the US, while Russia is turning to Asian markets, particularly China. Although gas exports to Europe have declined drastically, strong financial reserves have allowed Gazprom to survive. Going forward, Gazprom still has an important role in Russia's economic strategy, but its dependence on non-Western markets will determine its future.*

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## Gazprom Is Still Russia's Greatest Economic Weapon?

Russia's state-owned energy company, Gazprom, has lost access to the European market and is riddled with inefficiencies. However, Gazprom will not disappear anytime soon. This company is the engine that powers Russia's vast resources, which are used to keep Vladimir Putin in power. In February 2023, Gazprom celebrated its 30th anniversary, which makes it a little older than modern Russia itself. Gazprom was originally the brainchild of Viktor Chernomyrdin, Minister of Gas Industry of the Soviet Union in 1989, which aimed to merge 50 companies and 16% of the world's gas reserves. In February 1993, Gazprom was officially transformed into a joint-stock company. [1] ; [2] ; [3] .



*Figure 1. Ceo Gazprom – Alexey Miller. Source :*

*<https://images.oedigital.com/images/maritime/w1311h871/alexey-miller-credit-gazprom-134815.jpg>*

Gazprom has always had a superpower that is often used by the government. The company is known as the "Government Wallet" because it is often asked to help with state financial matters, such as paying pensioners and maintaining the ruble exchange rate [4] ; [5]. Many parties wanted to control this huge energy power, one of which was gas oligarch Rem Vyakhirev, who was Chernomyrdin's deputy, and he became very rich by maintaining this huge monopoly. It is said that in 1999, the new Russian President, Vladimir Putin, declared: "Give me Gazprom." When he came to power, Putin immediately dealt with the issue. In 2000, at the first meeting of Gazprom shareholders under Putin's leadership, Dmitry Medvedev became chairman of the board of directors. "They made me like a bear in a trap with all their ridiculous checks, very difficult to work," Vyakhirev recalled. A year later, he resigned, and since then Gazprom has been led by Alexey Miller, Putin's former colleague from the mayor's office in St. Petersburg. [6] ; [7]

## The core of the Russian economy

Russia has ambitions to become an "energy superpower", in which Gazprom plays a central role. In the early 2000s, gas prices rose and in 2006, Gazprom gained a monopoly on exports through pipelines. In 2008, the

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company was valued at \$360 billion, making it the third most valuable company in the world after ExxonMobil and Apple. Gazprom CEO, Alexei Miller, even predicted that the market capitalization of Gazprom could reach \$1 trillion within 7-8 years [8] ; [9] . However, in less than a year, its value dropped to \$100 billion and today it is even worth half of that figure. [10]

Despite seemingly huge success in the early 2000s, Gazprom made an almost invisible mistake: it ignored the liquefied natural gas(LNG) revolution. LNG allows the transportation of gas through the sea, not just through pipelines. This technology has been developed for a long time, when the US built its first factory in the 1940s and the Soviet Union in the 1950s. However, a major surge in the use of LNG by Russia only occurred in the 2000s. [11]

## **How Russia Uses Oil and Gas...**

Since Vladimir Putin came to power, Russia has systematically used oil and gas (oil and gas) as an important tool in its foreign policy. Russia's energy resources, especially natural gas, have become a powerful economic weapon to influence and control other countries, especially in Europe.

### **European Energy Dependence**

Most European countries, especially Germany, rely heavily on Russian natural gas. Russia, through state giant Gazprom, supplies more than 40% of Europe's gas needs. This dependence gives Russia great leverage in international affairs. With pipeline projects such as Nord Stream and Nord Stream 2, which connect Russia directly with Germany through Ukraine, are a vivid example of how Russia is strengthening its influence. These projects allow Russia to control gas supplies to Europe without going through transit countries such as Ukraine, which reduces the negotiating power of transit countries and gives Moscow direct control. [12]

### **Political Pressure through Supply Cuts**

Russia has several times used the strategy of cutting off gas supplies as political pressure against countries that are considered to threaten their interests. One example is the gas conflict with Ukraine in 2006 and 2009, where Russia cut off gas supplies to Ukraine amid a price dispute, which led to an energy crisis across Europe. As Ukraine moves closer to the West, Russia has repeatedly harnessed gas to exert economic and political pressure. This disconnection is not only detrimental to Ukraine, but also to European countries that depend on Russian gas transiting through Ukraine. Thus, Russia can send a strong political message through controlling energy supplies.

### **Market Diversification: China and East Asia**

In addition to focusing on Europe, Russia has also begun to expand its market to Asia, especially China. The Power of Siberia pipeline project, which connects Russian gas with China, is an important strategic step to reduce Russia's dependence on European markets and expand its influence in Asia. With China as one of the world's largest energy consumers, Russia sees a great opportunity to build strategic alliances through energy trade. It also gives Russia a stronger market alternative if relations with Europe deteriorate or if Western sanctions are tightened.

### **Global Energy Market Manipulation**

Russia also plays a big role in OPEC+, an alliance between oil-producing countries that work together to

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regulate world oil production and control prices. By being one of the main players in OPEC+, Russia has a great influence on global oil prices. In 2020, for example, Russia and Saudi Arabia were involved in an oil price war that led to a dramatic drop in world oil prices. Although this initially harmed the Russian economy, in the long run, Russia used this crisis to strengthen its position in the global market, while testing the resilience of Western countries that depend on stable oil prices. [13]



Figure 2. Russian pipelines. Source : <https://images.theconversation.com/files/482034/original/file-20220831-16-lypmfk.jpg?ixlib=rb-4.1.0&q=45&auto=format&w=754&fit=clip>

## Gas Crisis Tests Europe's Resilience

As the war in Ukraine continues, the main goal of the Russian government is to convince Europe to withdraw its support for Ukraine. To achieve this, Russia has opened a second strategy – namely in the energy sector.

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The European Union (EU) is seeking to limit Russia's revenues from oil and gas, while Russia has threatened to cut off gas supplies, signaling that a catastrophic upcoming winter could occur. In the summer, gas supplies began to decrease, and gas prices in Europe began to rise. In August 2023, when prices reached \$3,823 per 1,000 cubic meters, Dmitry Medvedev, a top Russian official sarcastically sneered at European leaders, predicting that prices could reach \$5,462 by the end of the year. Meanwhile, the forecast from Gazprom is slightly lower, which is around \$4,000. Europe does pay a very high price for this gas war and will continue to pay, because in 2023 the estimated shortage is around 57 billion cubic meters of gas. However, Europe's losses are temporary. On the other hand, Gazprom could have lost most of its export revenue for a long time. The share of Russian gas in the EU's total gas consumption will drop drastically from 40% to just 10%. Before the war, this seemed impossible, but the EU now buys more liquefied natural gas (LNG) from the United States than from Gazprom. [5] ; [14] ; [15] ; [16]

## **Gazprom's Stability Amid Declining Exports**

Mismanagement is usually fatal for the company, but this is not the case for Gazprom, the Russian-owned energy giant. Gazprom has strong financial strength, mainly thanks to gas prices that jumped sharply in 2021 in Europe, and increased even more when the Russia-Ukraine war broke out in 2022.

Gazprom has a sizable profit reserve. At the end of 2021, gas prices in Europe were very high, and when war broke out, they soared even further. As a result, Gazprom recorded a record net profit of 2.5 trillion rubles (\$3.4 trillion) in the first half of 2022, 2.6 times higher than the previous year. [17]

Although Gazprom was subject to additional taxes, production fell, and exports collapsed, they still did not suffer losses. Their net profit did fall by half compared to 2021, but it remained impressive, at 747 billion rubles (\$910 billion).

According to Tatiana Mitrova, a researcher at the Center for Global Energy Policy, the collapse of Gazprom will not occur anytime soon. In 2022, Russia's revenues from very high gas prices remained large, although exports fell by 80% at the end of the year. In the 2023-2025 period, it is estimated that their income will remain higher than in 2019-2020. [5]

Currently, Gazprom supplies gas to China at a price of about \$290 per 1,000 cubic meters, while contracts in Europe are about \$1,000. Another analysis shows that the average effective price for China in 2022 ranges from \$260 to \$390 per 1,000 cubic meters [18] ; [19] .

The scenario of Russian gas exports to 2030 shows that even in the worst-case scenario, Russian gas exports (both through pipelines and LNG) will not be less than 125 billion cubic meters per year. Although this is only half of the export level in 2021, the amount is still comparable to the exports of Qatar or the United States, Mitrova said



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## GAZPROM'S SIBERIAN PIPELINE NETWORK



*Figure 3. Gazprom via pipeline Power of Siberia to [China](#). Source : [https://www.spglobal.com/platts/plattscontent/\\_assets/\\_images/latest-news/20191203-gazprom-siberian-pipeline-map.jpg](https://www.spglobal.com/platts/plattscontent/_assets/_images/latest-news/20191203-gazprom-siberian-pipeline-map.jpg)*

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