



– TO THE POINT –

Risto E. J. Penttilä

Dr Risto Penttilä is Director of Finnish Business and Policy Forum EVA and Secretary General of the European Business Leaders' Convention.

Khodorkovsky's Testament

What a difference three years makes! In 2003 Mikhael Khodorkovsky was one of the richest men in Russia, his Yukos dominated the country's oil markets and his ideas were quoted both in Russian and Western media. Now he is in Siberia, Yukos is bankrupt, Russian energy markets are ruled by two state-controlled giants, Gazprom and Rosneft.

Yet, Khodorkovsky's vision for Russia is only half-dead. The Kremlin is busy realising Khodorkovsky's idea of Russia as a global powerhouse. At the same time it is not implementing the other half of Khodorkovsky's vision. This part called for an introduction of better corporate governance, market-driven utilisation of Russia's energy resources and a clearer separation of judicial and political powers. The big question is whether one can have one without the other.

In 2003, a few months before his imprisonment, Khodorkovsky gave a talk in Helsinki to a group of Russian and European

executives. Finland was a natural venue for Khodorkovsky's talk: he used to take his family for vacations in the Finnish Lapland "where nobody knew him and, consequently, nobody bothered him".

The head of Yukos was clearly aware of the danger of being locked up. He discussed this possibility openly in a Q&A session with the participants. As a result, his talk had an eerie feeling of a testament about it. (Yet, in hindsight it seems quite clear that he did not think that he would be jailed for more than a few months or a year.)

Khodorkovsky was convinced (like the Kremlin is now) that Russia was sitting on top of an energy bonanza that was bigger than anybody had realised. According to him, Soviet and Russian analysts had consistently underestimated Russian gas reserves.

"Soviet geologists were more inclined towards underestimating rather than overestimating our potential," he assessed. Fur-

thermore, he believed that Western experts had made the same mistake with regards to Russian oil reserves. Although majority of Russian companies were audited by international auditing companies, reserve estimates had not been sufficiently revised. In Khodorkovsky's view, Russia's real reserves exceed 150 billion barrels, "and it is quite difficult to say how much more we still have offshore."

Secondly, Khodorkovsky then (like President Putin and Chancellor Schröder later) believed in pipelines. He believed that "purely physically", it was more efficient to transmit energy through oil and gas pipelines than by any other means. In addition, he noted that pipelines were environmentally friendly. Focusing on the narrow Bosphorus straits, he predicted an environmental disaster that would force governments and companies to redouble their efforts to build pipelines.

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"Most likely this disaster will not be caused by some super tanker – after all, super tankers usually have experienced captains at the helm and rather good safety features – but probably by a much smaller vessel, say 5,000 tons or 30,000 tons, or some self-propelled barge; that is more than enough to create a problem."

So far the unanimity between Khodorkovsky and the Kremlin is nearly perfect. The difference is, of course, that Khodorkovsky saw private companies as key to the full utilisation of Russia's energy potential. In his view, Gazprom would still play a role but this role would be a limited one. He predicted that the production of gas by Gazprom would stabilise at a level a little bit higher than 500 billion cubic meters a year, while independent producers would increase their share of the total market.

"In connection with this, we will be able to increase gas exports by one and a half

to two times," he predicted. With private companies leading the way, Russia could occupy the place that will be freed up by the dwindling of the North Sea production. With the UK and Norway clearly in mind Khodorkovsky noted that "you need to pass the baton to the next guys."

The next guys, meaning Russian energy executives, were ready for the challenge. Khodorkovsky promised that private energy companies could increase Russia's share from 17% to 23-28% of total European consumption. This would translate to an oil export capability of 6-7 million barrels per day. With proper investments in upstream technologies and in transport infrastructure, Russia could maintain "such a capability for at least the next 30 years."

Whose vision will prevail? Will the Kremlin be able to fulfil the vision of greater energy exports with the help of two export monopolies (Rosneft for oil and

Gazprom for gas) and a strong state control or should it trust the markets more? The question also has a European corollary: should the European Union try to further politicise energy trade with Russia by creating a common energy policy or should it leave the matter to the markets? It is Kremlin and the Commission versus the markets.

In the short term the Kremlin may well succeed. High energy prices fill the coffins of the state and allow for an increase in, for example, military spending. Huge demand of oil and gas gives Moscow a top seat in global politics. In the long run, success is not guaranteed. Without modernisation, Russia will become a huge petro-state: a country whose voice is heard only when the price of energy is high. With modernisation, it can take its place among the responsible great powers – a position that its membership in the G8 presupposes. ■