

THE ROLE OF STATE CONTROLLED COMPANIES IN RUSSIAN FOREIGN POLICY:
CASES OF GAZPROM AND ROSOBORONEXPORT

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THE ROLE OF STATE CONTROLLED COMPANIES IN RUSSIAN FOREIGN POLICY:
CASES OF GAZPROM AND ROSOBORONEXPORT

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ABSTRACT

THE ROLE OF STATE CONTROLLED COMPANIES IN RUSSIAN FOREIGN POLICY: CASES OF GAZPROM AND ROSOBORONEXPORT

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This study examines the role and the significance of the state controlled companies in Russian Foreign Policy. The thesis argues that Russian Foreign Policy since Putin's rise to power has not been formulated and implemented by the conventional Foreign Policy establishment but by the non conventional actors such as Gazprom and Rosoboronexport due to the increasing importance of energy and arms sales in Russian Foreign Policy.

Keywords: Russia, Foreign Policy, Energy, Arms Export, State Controlled Company

ÖZ

RUS DIŞ POLİTİKASINDA DEVLET KONTROLÜNDEKİ ŞİRKETLERİN ROLÜ: GAZPROM VE ROSOBORONEXPORT ÖRNEKLERİ

TÜYLÜOĞLU, MAZHAR YASİN

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Bu çalışma, Putin'in iktidara gelmesinden bu yana Rus Dış Politikasının geleneksel dış politika araçları yerine enerji ve silah satışlarının Rus Dış Politikasında artan önemi dolayısıyla Gazprom ve Rosoboronexport gibi geleneksel olmayan aktörler tarafından şekillendirilmesi ve uygulamaya konulmasını tartışmaktadır.

Anahtar Kelimeler: Rusya, Dış Politika, Enerji, Silah İhracatı, Devlet Kontrolündeki Şirket

To My Family

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LIST OF ABBREVIATIONS

ABBREVIATIONS

bcm	billion cubic meters
CIS	Commonwealth of Independent States
COMECON	Council for Mutual Economic Assistance
CSTO	Collective Security Treaty Organization
EIA	Energy Information Administration [U.S. Department of Energy]
EU	European Union
FSB	<i>Federalnaya Sluzhba Bezopasnosti</i> [Federal Security Service]
FSU	Former Soviet Union
GDP	gross domestic product
GNP	gross national product
GSM	General Shareholders Meeting
KGB	<i>Komitet Gosudarstvennoy Bezopasnosti</i> [Committee for State Security]
NATO	North Atlantic Treaty Organization
RF	Russian Federation
RFP	Russian Foreign Policy
RR	Russian Rubles
SOE	State Owned Enterprise
tcm	thousand cubic meters
UN	United Nations
UGSS	Unified Gas Supply System
USA	United States of America
USD	United States Dollar
USSR	Union of Soviet Socialist Republic

CHAPTER 1

INTRODUCTION

The collapse of the Soviet Union brought a new unipolar world order and a series of alterations. Russian Federation, as a former Soviet Union state, was wretched both politically and economically. The last decade of the 2000s also witnessed a group of young entrepreneurs who try to exploit the situation and make use of it. These “*oligarchs*” have further drained the already exhausted sources of the new state. Therefore, young Russian Federation had struggled to cope with the economic problems. Especially in Yeltsin’s term, Russians were missing the old and glorious days of the USSR so much that everyone was seeking for another unity partly because the people were worried about the living conditions and standards of the new country.¹

On 31th December 1999, President Boris Yeltsin resigned from his post and Vladimir Putin assumed the role of acting President. This date was also marking the start of a new era in the contemporary Russian politics. With Putin in charge, Russia began to nationalize some of the most important business sectors, such as energy, arms, mines and railroads. In that respect, this thesis seeks to analyze the power shift in Russia from private sector to the state and deepens the analysis by looking into two state owned enterprises; Gazprom and Rosoboronexport.

¹ For more information on the issue: John. M. Thompson, “Russia and the Soviet Union : An Historical Introduction from the Kievan State to the Present”, *Westview Press*, Philadelphia, 2009.

1.1 Scope and Objective

The purpose of this thesis is to examine the foreign policy structure of Russian Federation and take a closer look at one of its instruments which is the state controlled companies. As these foreign policy tools vary in a large scale, Energy and Arms Exports gain a special value. Therefore a comprehensive analysis of the topic is a must for Russian studies. This thesis also aims to give a compact and well-coordinated data about both Gazprom and Rosoboronexport.

Researchers usually focus on the recent events and developments in the fields of Energy and Arms Exports. However there's need of a detailed review of the companies involved in the above mentioned issues which we don't observe too often. Therefore this thesis will not only contribute to the literature but also help academics who study in the field, about their future researches.

1.2 Literature Review

In terms of Russian Foreign Policy, the literature is extremely rich. But most of the scholars, who research on foreign policy of Russia, concentrate on the issue of Russian identity and place it in the middle of an East-West clash. The mainstream arguments can be formulated as "Russia and other country", while other country may differ. This approach can be observed in the works of Dmitry Shlapentokh², Gabriel Gorodetsky³ and Roger E. Kanet⁴. However there are two major issues which need to be taken into consideration. Analyzing Russian Foreign Policy from a Western point of view can be regarded as the first reason. The lack of a different approach in the literature encourages the writer of this thesis.

² Dmitry Shlapentokh, "Russia Between East and West: Scholarly Debates on Eurasianism", Dmitry Shlapentokh (ed.), *Brill*, Leiden, 2007.

³ Gabriel Gorodetsky, "Russia Between East and West: Russian Foreign Policy on the Threshold of the Twenty-First Century", Gabriel Gorodetsky (ed.), *Frank Cass Publishers*, London, 2003.

⁴ Roger E. Kanet, "The Foreign Policy of the Russian Federation", Roger E. Kanet and Alexander V. Kozhemiakin (ed.), *MacMillan Press*, London, 1997.

Secondly, studies on the Russian Foreign Policy in general and foreign policy instruments in particular focus on theoretical debates, certain issues and concrete problems. Jeffrey Mankoff⁵, Elnur H. Mikail⁶ handles the subject in very broad terms. According to the writer of this thesis, a narrowed research on the instruments of Russian Foreign Policy will be more effective.

Additionally, the works of Dmitri Trenin, Marshall I. Goldman⁷, Erel Tellal⁸, Bobo Lo, Pavel Baev, Vladimir Socor, Richard Sakwa, Nicklas Norling, Daniel Yergin, Robert L. Larsson, Cameron S. Mitchell, Pami Aalto⁹, Robert H. Donaldson, Joseph L. Noguee, Olga Oliker, Adam Blinick, Dereck Brower will be of great significance. Within this context, the views of all the above mentioned scholars will be invaluable as they are going to contribute greatly to the thesis.

1.3 Argument

The main argument of the thesis is that the Russian Foreign Policy is based on certain elements and that the state owned enterprises play an indispensable role in pursuing this policy. Foreign policy making in Russia went through a difficult process after the collapse of the Soviet Union.¹⁰ The heritage of a great world power was about to perish with the young state. Especially in the first years of 1990s Russian Federation was struggling to get things in the right direction partly because of the inconvenient conditions both politically and economically. Whole state system was down and the foreign policy devices were badly

⁵ Jeffrey Mankoff, "Russian Foreign Policy: The Return of Great Power Politics", *Rowman & Littlefield*, Maryland, 2009.

⁶ Elnur Hasan Mikail, "Yeni arlar ve Rus Dış Politikası", *IQ Kùltür Sanat*, İstanbul, 2007.

⁷ Marshall I. Goldman, "Petrostate: Putin, Power, and the New Russia", *Oxford University Press*, UK, 2008.

⁸ Erel Tellal, "Zùmrüdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010.

⁹ Pami Aalto, "Russia's Energy Policies: National, Interregional, and Global Levels", Pami Aalto (ed.), *Edward Elgar Publishing*, UK, 2012.

¹⁰ For more information on the issue: Robert W. Strayer, "Why Did the Soviet Union Collapse: Understanding Historical Change", *M. E. Sharpe*, New York, 1998.

affected from this situation. Boris Yeltsin and his team did their best to keep the state alive however it was not until Vladimir Putin's presidency that Russia started to get on its feet again. This thesis argues that if Russians have a say in the international arena today, it's because of a long term foreign policy strategies and dedicated leaders who implement these strategies. The thesis also argues that well organized state system plays a key role in Russia's success. By the term "well organized state system" we surely do not mean the old Soviet model of governing. With the "new tsar" -according to some- Russian state owned companies began to work for the good of the nation not for the profit of the governing elite. Therefore a series of changes observed in the upper level of administrative sections of these state controlled companies.

Vladimir Putin appointed his former colleagues from KGB and close, trusted friends to some very important positions. The Prime Minister of Russian Federation, Deputy Prime Ministers, Head of the Federal Security Service (FSB), Mayors of Moscow and St. Petersburg, Head of Gazprom, Head of Rosoboronexport, Head of the State Railways, Head of Aeroflot and many others can be named in the so-called inner circle of Vladimir Putin.¹¹ Even a Russian word, "*siloviki*", which means the "*people of power*", came into use to describe these men of state in Russia.

This thesis argues that the state controlled company concept does not totally object to the western style liberal economies. It is the Russian version of governance which allows the state to control the business from top to bottom. In fact, the necessity of this approach for Russia has arisen in the first years after the collapse of USSR. When looking into the improvements in the first decade of the 2000s, one can hardly oppose the fact that Russia became a regional super power¹² by implementing some policies which seems non-democratic, anti liberal and harsh for some in the West but bold, authentic and essential for most in Russia. All in all, we will build our main argument around the fact that Russia can be

¹¹ The Economist, "Russia under Putin: The making of a Neo-KGB state", 23 August 2007, http://www.economist.com/node/9682621?story_id=9682621, retrieved on 1 December 2011.

¹² For more information on the issue: Mazhar Yasin Tüylüoğlu, "Bölgesel Süper Güç", *Uluslararası İlişkiler ve Dünya Gündemi Analizleri*, 1 July 2009, <http://myt-myt.blogspot.com/2009/07/bolgesel-super-guc.html>, retrieved on 1 December 2011.

examined from various angles however it shouldn't be forgotten that we are unable to have a full insight on Russia unless we look from the Russian point of view.

In summary this thesis analyzes the formation and implementation of Russian Foreign Policy. Thesis argues that Russian Foreign Policy since Putin's rise to power has not been formulated and implemented by the conventional Foreign Policy establishment but by the non conventional actors such as Gazprom and Rosoboronexport due to the increasing importance of energy and arms sales in Russian Foreign Policy.

1.4 Research Method

The emergence of Russian Federation in the world stage distracted much attention from the scholars and encouraged many who work in the field of area studies. Some specific topics such as the Russian Foreign Policy, Energy, Energy Security, National Security and Terrorism are the most researched issues about Russia. Thus there is a huge archive in the field. Needless to say that a great amount of this archive consists of printed materials. Primary sources of our research and data collection are these library resources including books, newspapers, academic journals and periodicals, reports prepared by various national and international organizations.

In addition to the primary sources, internet resources were used in a great extent. Among these internet resources, e-books and online journals, newspapers, periodicals, internet databases of some key organizations and web sites of the relevant companies and business centers were utilized. Finally, the writer's personal experiences which are gained by interviews with officials and scholars can be counted as tertiary sources. We made use of this large archive and tried not to get lost in the vast ocean of information.

In terms of research methods, the writer of the thesis attaches great importance on objectivity. Therefore, we made sure that none of the information in the thesis reverberate any official discourse and that favors any personal or institutional interest.

1.5 Organization of the Thesis

The thesis consists of five chapters which are Introduction, Russian Foreign Policy, Gazprom, Rosoboronexport and Conclusion. The main parts are the third and the fourth chapters while the fifth chapter is reserved for the outcomes of the research, closing remarks and conclusions.

The Introduction chapter usually includes five sub-titles and this thesis is no different than the usual: Scope and Objective, Literature Review, Argument, Research Method and Organization of the Thesis. Basically, Introduction chapter seeks to summarize the aim of the thesis and underline certain points that will be examined closely.

Second chapter of the thesis is titled as Russian Foreign Policy. In this chapter we will firstly mention about the general principles of the Russian Foreign Policy and we are going to handle a highly controversial issue which is the foreign policy mechanism of Russian Federation.¹³ Western scholars argue that the foreign policy process in Russia is run by one man and one man only, Vladimir Putin. However we will explain that there are some certain, constitutional rules of foreign policy making and even Putin obeys these rules. Then we will analyze the post Soviet era foreign policy structure in Russia. This term can be divided into two decades: 1990-2000 and 2000-2010. By determining the discrepancy we would like to point out that Vladimir Putin's foreign policy behavior is much more different than that of Boris Yeltsin's. Therefore it is better to examine the post Soviet era in two separate sections. Finally in this chapter, we will define the state controlled company concept as the basis of the following two chapters. This chapter will be as detailed as it can be because it is essential for the rest of our thesis.

The third chapter is also the first main chapter of the thesis. We will dig into the state owned enterprises, the cases of our thesis. In this chapter, the main topic will be Gazprom and this section consists of four sub titles. First three sections can be seen as a timeline or as the historical background of the company. These sections will also include statistical data about

¹³ For more information on the issue: Stephen K. Wegren, "Russia's Policy Challenges: Security, Stability and Development", Stephen K. Wegren (ed.), *M. E. Sharpe*, New York, 2003.

Gazprom. The fourth section will be like an abstract of the thesis as we are going to examine Gazprom's affects on Russian Foreign Policy.¹⁴

Rosoboronexport will be handled in the fourth chapter. Again, the early years of the company, the rise and the current situation will be analyzed. The countries working with Rosoboronexport is another significant issue. When a second state is involved it becomes a foreign policy matter. Therefore this fourth chapter is about Russian arms trade with other countries and how it affects the foreign policy making.

The fifth and the last chapter of the thesis is for the closing remarks, outcomes of the research and conclusion. A collected bibliography will also be available after this last chapter.

¹⁴ For more information on the issue: Jeffrey Mankoff, "Russian Foreign Policy: The Return of Great Power Politics", *Rowman & Littlefield*, Maryland, 2009.

CHAPTER 2

RUSSIAN FOREIGN POLICY

Russian leaders and policymakers most often characterize Russian foreign policy as focused on two fundamental goals: Russia's desire to increase its global influence and to see its recent economic growth continue.¹⁵ The Russian approach to the foreign policy also aims to achieve a higher goal: Becoming a global super power, again. This chapter begins with the process of foreign policy making, the leaders, institutions and documents. We then look at the foreign policy dimensions in the post-Soviet era and split the period into two; before and after Putin. In the first part we will dig into the Yeltsin term while in the second we turn to the years with Putin and Medvedev.

2.1 Foreign Policy Mechanism in Russia

Most of the institutional structures in what we call today's Russia were inherited from the USSR. Thus, we should analyze the Soviet administration systems very well. The most important characteristic of Soviet style governing¹⁶ is a strong leadership. The general secretary of the Communist Party/ head of state/ president were responsible for foreign policy making, just as he was responsible for everything else. Contemporary Russian presidency system is somewhat similar to that of the Soviets. In the words of Richard Sakwa, in the most thoughtful and comprehensive analysis of the contemporary Russian political system, what had emerged by the end of the 1990s was not a democracy but a 'regime-state'. In place of the rule of the Communist party, 'the regime focused on the presidency exerted extra-constitutional authority over the political system as represented in the institutions of the

¹⁵ Olga Oliker, Keith Crane, Lowell H. Schwartz, Catherine Yusupov, "Russian Foreign Policy: Sources and Implications", *RAND Corporation Project Air Force*, Pittsburgh, 2009, p.83.

¹⁶ For more information on the issue : Chris Campbell, "Domestic Influences on Foreign Policy Behaviour-The Case for Soviet Leadership Style", *West Virginia University Press*, U.S.A, 1999.

state'¹⁷ Andrey Viyadkin refers to Professor A. A. Kornilov from the Nizhni Novgorod State University and describes the foreign policy mechanism as below:¹⁸

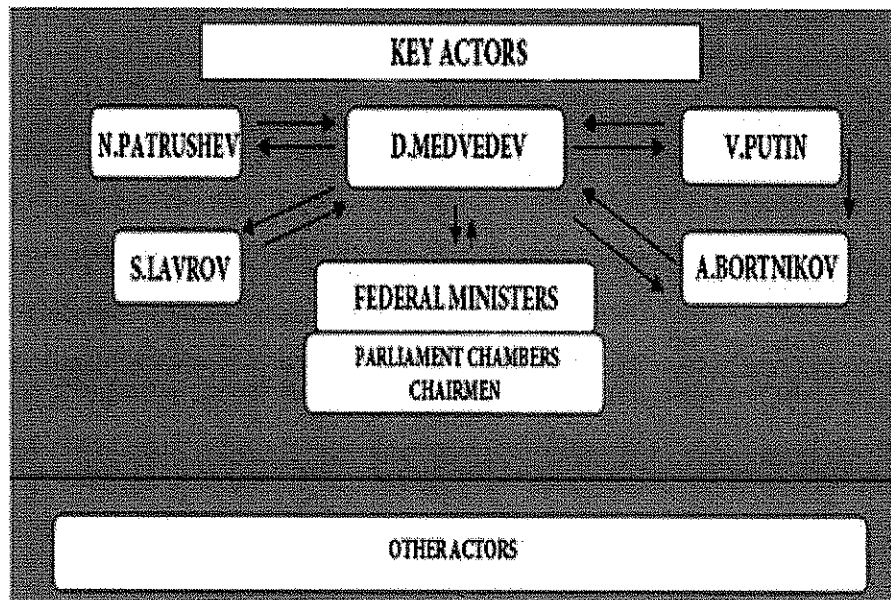


Figure 1. Russian Foreign Policy Decision Making Mechanism

Source: Andrey Vidyaykin, "The Process of Russian Foreign Policy Formation", *Wise Men Center for Strategic Studies*, 30 August 2010, http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=314:the-process-of-russian-foreign-policy-formation&catid=104:analizler-rusya&Itemid=133, retrieved on 4 March 2012.

According to Kornilov, foreign policy decision making mechanism has two parts: Key Actors and Other Actors. He, then, explains the key actors as (former) President Dimitri Medvedev, (former) Prime Minister Vladimir Putin, Foreign Minister Sergey Lavrov,

¹⁷ Richard Sakwa, "Russian Politics and Society", 3rd Ed., *Routledge*, New York, 2002, p.456.

¹⁸ Andrey Viyadkin, "The Process of Russian Foreign Policy Formation", *Wise Men Center for Strategic Studies*, 30 August 2010, http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=314:the-process-of-russian-foreign-policy-formation&catid=104:analizler-rusya&Itemid=133, retrieved on 4 March 2011.

Secretary for Security Council Nikolai Patrushev, head of FSB Alexander Bortnikov, Federal Ministers, Chairmen of the State Duma Boris Gрызlov and Chairwoman of Federation Council Valentina Matviyenko. Other actors may vary in a large scale regarding the content of the foreign policy matter but head of Gazprom Aleksey Miller and head of Rosoboronexport Anatoly Isaikin can be count among the most influential actors in RFP.¹⁹

All of the above mentioned actors, the so called *siloviki*, play significant roles in the decision making mechanism of Russian Foreign Policy however the leading role still belongs to Vladimir Putin. Viyadkin also argues about Putin's dominance by stating that most of the serious political decisions are made by two key Russian policy figures – (former) President D. Medvedev and (former) Prime Minister V. Putin.²⁰ American social scientist and theoretician Zbigniew Brzezinski underlines the same argument too.²¹

Certain state institutions and their cadres move together with the main actors in foreign policy making. Ministry of Foreign Affairs can be a good example. Although Minister Lavrov is heading the ministry and he is responsible to the Prime Minister, there are some key positions within the ministry which effects the state policies directly such as the permanent representative of RF to NATO, currently served by Nikolay Korchunov. Regardless of the name, the position itself holds a great importance. Similar to this, permanent representative of RF to the UN, Ambassador Extraordinary and Plenipotentiary Vitaly Churkin, carries the responsibility to represent Russia, a state with right of veto in the UN Security Council. These diplomats pursue already specified state interest in the bodies of international organizations. Thus international organizations can be considered as the proving grounds of RFP and the

¹⁹ Andrey Viyadkin, "The Process of Russian Foreign Policy Formation", *Wise Men Center for Strategic Studies*, 30 August 2010, http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=314:the-process-of-russian-foreign-policy-formation&catid=104:analizler-rusya&Itemid=133, retrieved on 7 March 2011.

²⁰ Ibid.

²¹ Zbigniew Brzezinski, "Putin's Choice", *The Washington Quarterly*, Washington, Volume 31, Number 2, Spring 2008, p.99.

role of Russian high-level diplomats is an integral one regarding the foreign policy mechanism.²²

After talking about the actors that implement Russian Foreign Policy the basic documents should be mentioned, too. One of the basic documents of RFP in the early period, the Military Doctrine, was adopted in November 1993. This document, also known as the “Karaganov Doctrine”, rejects the principle that the RF will not be the first state to use nuclear weapons and emphasizes that, Russian soldiers can be deployed abroad if necessary in order to secure the national and regional security.²³

The third paragraph of the article 80 of the Constitution of the Russian Federation²⁴ which was adopted in 25 December 1993 states that “The President of the Russian Federation shall, in accordance with the Constitution of the Russian Federation and federal laws, determine the basic objectives of the internal and foreign policy of the State”. Furthermore, sub paragraph “a” of the article 86 states that “The President of the Russian Federation shall direct the foreign policy of the Russian Federation”.²⁵

When Putin came to power in 2000, what Russia needed was a document that was more determining with a focus on foreign policy, hence the doctrine titled The Foreign Policy Concept of the Russian Federation was adopted in 2000. Firstly, the document outlines the general principles of Russian Foreign Policy and, then, addresses the new status quo under the chapter of Modern World and Russia. The third chapter lists the priorities of the Russian Federation as establishing a new world order, strengthening international security, international economic relations, information support with regards to human rights and

²² Andrey Viyadkin, “The Process of Russian Foreign Policy Formation”, *Wise Men Center for Strategic Studies*, 30 August 2010, http://www.bilgesam.org/en/index.php?option=com_content&view=article&id=314:the-process-of-russian-foreign-policy-formation&catid=104:analizler-rusya&Itemid=133, retrieved on 7 March 2011.

²³ Erel Tellal, “Zümrüdüanka: Rusya Federasyonu'nun Dış Politikası”, *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.198.

²⁴ For more information on the issue: Gennady M. Danilenko, “The New Russian Constitution and International Law”, *American Society of International Law*, Vol 88, No 3, U.S.A, 1994.

²⁵ Ministry of Foreign Affairs of Russia, “The Constitution of the Russian Federation”, <http://www.mid.ru/bdomp/nsosndoc.nsf/1e5f0de28fe77fdcc32575d900298676/d0bd6a5ba542c949c32575dd004009ee!OpenDocument>, retrieved on 4 December 2012.

foreign policy activities when solving global problems. “Regional Priorities”, the fourth chapter, deals with the relations with the former USSR countries known as Russia’s “backyard”, as well as with other countries in the region.²⁶

However, the most important document regarding this matter is undoubtedly the Foreign Policy Concept of the Russian Federation²⁷ dated July 12, 2008. This document was an updated version of the previous one, which had been published in 2000, due to the changes both in regional and global conjuncture. Even though the structure of the document was kept the same, the content was rearranged. For instance, a new title, the Primacy of Law in International Relations, was added to the third chapter and the title International Economic Relations was changed into International Economic and Environmental Cooperation.

As stated in the web site of the Russian mission to European Union, “the 2008 Foreign Policy Concept reflects Russian views on the contemporary world as well as tasks and objectives that Russia pursues. The Concept covers processes that occur in the entire world and its main regions. This document serves as a foundation for the Russian foreign policy strategy which is in line with qualitatively new geopolitical situation”.²⁸

2.2 Russian Foreign Policy in the Post Soviet-era

Russia has suffered great setbacks after the collapse of the USSR. Russian economy was in a miserable situation and production was almost halted. In fact the country had vast resources but the question of how to use them properly was still unknown partly because the decadent administrative system of the past. Therefore, in the post-Soviet era, old mentality has changed and a more Western approach has adopted. While Soviet foreign policy was based on an ideological confrontation with the “imperialist world” personified by the West and the facilitation of its destruction was the eventual objective of that policy, post-Soviet

²⁶ Ministry of Foreign Affairs of Russia, “The Constitution of the Russian Federation”, <http://www.mid.ru/bdomp/nsosndoc.nsf/1e5f0de28fe77fdcc32575d900298676/d0bd6a5ba542c949c32575dd004009ee!OpenDocument>, retrieved on 4 December 2012.

²⁷ For more information on the issue: Keir Giles, “Russia’s National Security Strategy to 2020”, *NATO Defence College Research Division*, Brussels, June 2009.

²⁸ Permanent Mission of the Russian Federation to the European Union, “Russian Foreign Policy”, <http://www.russianmission.eu/en/russian-foreign-policy>, retrieved on 4 December 2012.

foreign policy was the carryover of residual Soviet features; i.e., the paradigm centered on the exclusive role of interaction with the West minus the radical goal of the latter's destruction.²⁹ This "compulsory" interaction resulted with liberal economic transformations and privatizations. Western style economy brought closer ties between Russia and the West with it. Russia's relations with United States significantly improved as well as Russia's relations with the Western institutions.

RF was also seeking new ways to come together with the post Soviet countries even after the USSR has fallen. In 1991, Commonwealth of Independent States and in 1992, Collective Security Treaty Organization formed with the participation of ex-Soviet states. RF also declared "*the near abroad*" (Blijniy zarubejnye) policy which aims to turn the post Soviet geography into Russia's economic and security related living space.³⁰ This policy also called as the "*Monroe Doctrine of Russia*".³¹

On the other hand, Russia's relations with non-communist states substantially recovered. In terms of third countries and UN, EU, CIS like international organizations, RF swiftly adopted to the new unipolar world order. However, the desire to grow bigger, influence the others and play a greater role in shaping the international system revealed itself particularly in the 2000s, in Putin's era.

2.2.1 Russian Foreign Policy under Boris Yeltsin

The year 1991 witnessed massive political changes in the world; the Cold War has ended, Gulf War has started, Warsaw Pact and COMECON dissolved, Yugoslavia and USSR collapsed and Boris Yeltsin elected as the president of the Russian Soviet Federative Socialist Republic, later the Russian Federation. Yeltsin has taken over a country with a bag full of problems. Arbatov describes these problems as dissolution, economic and social dismay, the

²⁹ Alexander Lukin, "From a Post-Soviet to a Russian Foreign Policy", *Russia in Global Affairs*, 16 November 2008, http://eng.globalaffairs.ru/number/n_11886, retrieved on 5 December 2012.

³⁰ Tatyana Valerevna Yuryeva, "Problemy Natsionalnoy Bezopasnosti Rossiyskoy Federatsii", *Vnechnyaya Politika Rossiyskoy Federatsii 1992-1999*, Moscow, 2000. p.54.

³¹ Erel Tellal, "Zümrüdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.206.

problem of leadership and changes in the new international system.³² One can admit that conserving stability and preventing Western intervention in the post Soviet space and carrying the regional and global responsibilities which inherited from the USSR were main priorities of the RFP under Boris Yeltsin.

But one certain issue among the others had the highest priority: Economy. As Arbatov underlines too, the economic challenges were almost impossible to deal with, particularly with the Soviet style of governance. Thus, Yeltsin, appointed Yegor Gaidar, a very well known liberal and the architect of the '*shock therapy*' program³³, as the Economy and Finance Minister, then Prime Minister; Anatoly Chubais as the Deputy Prime Minister and Andrey Kozyrev as the Foreign Minister. The liberal economic transformations in Russia in 1992 were led by this group of Yeltsin's ministers, known as the 'young reformers' and also by their own self-description as 'democrats'.³⁴ The longest serving Prime Minister of Russian Federation and the founder and first chairman of state owned energy giant Gazprom, Viktor Chernomyrdin aided this group of Westernists in the re-building of the country's economy and foreign policy.

As Tellal argues, the reconstruction process in the economy which started with *Perestroika* in the last years of the Soviet Union has continued with the shock therapy program in the first years after the collapse.³⁵ According to the program, state planning has ended, prices are liberated, state owned industrial complexes are rapidly disposed and private sector is encouraged.

³² Alexei G. Arbatov, "Russia's Foreign Policy Alternatives," *International Security*, Cambridge, Volume 18, Number 2, 1993, p.7.

³³ Patrick Henry, "Yegor Gaidar, Shock Therapy Architect, Dies at 53", *Bloomberg*, 16 December 2009, http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aksFQ_yV.X00, retrieved on 8 December 2011.

³⁴ Alexander Lukin, "The Political Culture of the Russian Democrats", *Oxford University Press*, London, 2000.

³⁵ Erel Tellal, "Zümürdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.198.

“The key to consolidating democracy in Russia was to carry out the privatization of the economy as quickly as possible”.³⁶ Under Boris Yeltsin, the newly independent Russian Federation initiated a mass privatization scheme meant to transfer the assets of the now-defunct Soviet state to the people in whose name the property nominally was held. “However, incipient privatization efforts in the late Soviet period targeting smaller industrial concerns, had already determined that, in practice, assets would be transferred to political and economical elites rather than the masses”.³⁷ “This would create a new class of private owners who would have a vested interest in opposing any possible return of the Communists”.³⁸ The new class of businessmen purchased state owned enterprises with substantially low prices and turned them into high-profit ventures.

However, this honeymoon period of the rapid economic reform process didn't last for too long. Soon after the privatizations began, the economic situation of the country and the welfare of the people deteriorated. Erel Tellal gives some very key statistical data about the economic plight. In the first year of the shock therapy program, industrial production has experienced a decline of %26. The decline is %46 between 1991 and 1995. GNP decreased %43, while this rate was %24 between the years 1941 and 1945.³⁹ The USSR was mainly exporting industrial and production goods. However on the eve of the 2000s the only industrial good that depends on technology was arms.⁴⁰

The shift from the state controlled economy to the liberal economy caused mass poverty and hyperinflation in Russia. The inflation rate was %2.520 in 1992. The purchasing power of the ruble also went down. The service/goods which can be purchased for 100 rubles

³⁶ Peter J.S. Duncan, “Contemporary Russian Identity Between East and West”, *The Historical Journal*, Cambridge, Volume 48, Number 1, 2005, p.278.

³⁷ Robert A. Saunders, Vlad Strukov, “Historical Dictionary of the Russian Federation”, *Scarecrow Press*, Washington, May 2010, p.467.

³⁸ Peter J.S. Duncan, “Contemporary Russian Identity Between East and West”, *The Historical Journal*, Cambridge, Volume 48, Number 1, 2005, p.278.

³⁹ Erel Tellal, “Zümrüdüanka: Rusya Federasyonu'nun Dış Politikası”, *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.198.

⁴⁰ Ibid.

in 1990, purchased for 1.170.000 rubles in 1998.⁴¹ These hard economic conditions and living standards triggered social unrests.⁴² Russians started to question the Western style of economic development. The situation was not so bright either from the outside. "From the late 1990s, a group of Western writers produced histories which were very critical of the whole economic reform process under Yeltsin and of the role of the West in promoting it".⁴³ Chrystia Freeland wrote: "Russia was robbed in broad daylight, by businessmen who broke no laws, assisted by the West's best friends in the Kremlin – the young reformers."⁴⁴ It is clear that Freeland's term, "West's best friends" depicts Boris Yeltsin and his Atlanticist team.

2.2.2 Russian Foreign Policy in the 2000s

In 1999, the leadership of Boris Yeltsin was under scrutiny while Russia was struggling with the Chechnya Issue and instability in the country internally, together with economical hardships and problems in foreign policy after it had lost power with the fall of USSR. Yeltsin was facing enormous criticism because of his alcohol problem and every day it was clearly stated by different figures that Yeltsin was not suitable to rule Russia. Although Yeltsin's tenure was until 2000, Yeltsin was aware of these opposing views and had made his plans accordingly.⁴⁵ It was obvious that he would not be the leader to carry Russia to the next millennium. However, there was no problem with him choosing the leader who would. Towards this aim, first of all, Yeltsin removed Viktor Chernomyrdin, the Prime Minister between 1992 and 1998, who was gaining more political power and therefore becoming a strong candidate for presidency, and replaced him with Sergey Kiriyenko, a 35-year-old

⁴¹ Marshall I. Goldman, "Render Unto Caesar: Putin and the Oligarchs", *Current History*, Philadelphia, Volume 102, Issue 666, p. 324.

⁴² For more information on the process; Boris Kagarlitskiy, "Rusya'da Kapitalizm Neden Tutmadı?", *Metis Yayınları*, İstanbul, 1996.

⁴³ Peter J.S. Duncan, "Contemporary Russian Identity Between East and West", *The Historical Journal*, Cambridge, Volume 48, Number 1, 2005, p.278.

⁴⁴ Chrystia Freeland, "Sale of the Century: Russia's Wild Ride from Communism to Capitalism", *Crown Business*, New York, 2000, p. 171.

⁴⁵ Peter Rutland, "Putin's Path to Power", *University of Houston*, <http://www.uh.edu/~pgregory/conf/Rutland.PDF>, retrieved on 11 December 2012.

banker.⁴⁶ However, the economic crisis of August 1998 forced Kiriyenko to resign and Yeltsin had to appoint Yevgeny Primakov, who was known as a Eurasianist, as the new Prime Minister. Primakov was a highly seasoned Soviet diplomat and was a staunch Yeltsin opponent. From the moment he took the office, he had many disagreements with Yeltsin over a vast number of subjects; from the powers of the president to corruption. Eventually, Yeltsin removed him in May 12, 1999 and appointed Sergei Stepashin instead.⁴⁷ Stepashin did not stay in power long and in August 1999, Vladimir Putin became the new Prime Minister of the Russian Federation.

Thus Yeltsin went through three premiers (Kiriyenko, Primakov, and Stepashin) in 12 months before hitting upon the relatively unknown Putin. Yeltsin was using the post of prime minister to vet a presidential successor, rather than to provide a well-led government. He seemed indifferent to the resulting chaos in Russia's political system, not to mention its domestic and foreign policy.⁴⁸

On the other hand, a huge debate was going on between the Eurasianists and the Atlanticists.⁴⁹ Fundamentally, the Eurasianists question the history and the future of Russia, place her on the East and ascribe an Eastern identity to Russia. They also oppose to the West, and especially to the USA.⁵⁰ Conversely, the Atlanticists were liberals in terms of economic growth and were advocating closer ties with the West. The seat of the Foreign Minister of Russia occupied by both camps; by Andrey Kozyrev, one of the leaders of the rapid economic reform process and an Atlanticist, between 1991 and 1996 and by Yevgeni Primakov between 1996 and 1998, a Eurasianist and later Prime Minister.

After the resignation of Boris Yeltsin in August 31, 1999, Vladimir Putin, who would carry Russia to 2000s, was appointed as the Acting President of the Russian Federation. In the

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ira Straus, "Eurasianism and Atlanticism: Enemies or Allies?", *OEN OpEdNews*, 28 December 2008, <http://www.opednews.com/articles/3/Eurasianism-and-Atlanticis-by-Ira-Straus-081227-415.html>, retrieved on 7 December 2011.

⁵⁰ İlyas Kamalov, "Putin Dönemi Rus Dış Politikası: Moskova'nın Rövanşı", *Yeditepe Yayınları*, İstanbul, Ocak 2008, p. 5.

presidential elections of March 26, 2000, Putin won 53,4% of the votes and became the second President of the Russia Federation.⁵¹

Thus ended the conflict between the sides of Atlanticists and Eurasianists in 1990s in Russia by Putin's ascendancy. Putin has tried to establish a synthesis, as it were. He readopted the Soviet national anthem by having new lyrics written over the previous one, adopted the Russian flag as the tricolor flag of the Tsardom of Russia but left the red army flag untouched. In contrast to Yeltsin who did not hide his contempt from anything belonging to Soviet era, Putin has tried to revive the Soviet patriotism for Russia.⁵² He implemented this strategy wisely: "Whoever does not miss the Soviet Union has no heart, whoever wants it back has no brain".⁵³ Putin's difference was also seen in his relations with Duma. Contrarily to Yeltsin, who struggled against the opposition of Duma during his tenure, Putin established a full control over Duma after the elections of 2003. Putin reinforced his power with the presidential elections of 2004; however, due to Constitution, he could not run in the elections of 2008 and chose Dmitry Medvedev as his successor. Medvedev, in turn, appointed Putin as Prime Minister. In this period, not a single minor change can be seen in the general lines of Russian Foreign Policy. With the arrival of 2012, Putin and Medvedev switched places again and Putin became the President after a four-year-interval.

With regards to foreign policy, one can mention the influence of public and interest groups along with executive organization.⁵⁴ The influence of public was particularly obvious during Yeltsin period. In Putin's era, however, it would be right to say that the government shaped the public opinion. Two of interest groups became more prominent. The first one, which inherited from the USSR, is the Military-Industrial Commission of the Russian

⁵¹ University of Essex, "2000 Presidential Elections", 26 March 2000, <http://www2.essex.ac.uk/elect/database/indexElections.asp?country=RUSSIA&election=ru2000presidential>, retrieved on 27 December 2012.

⁵² Erel Tellal, "Zümürdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.198.

⁵³ Toby Trister Gati, "Putin's Russia", *CSIS (Center for Strategic and International Studies) Comparative Connections*, Washington, Volume 2, Number 1, 15 April 2000, p. 36.

⁵⁴ S. A. Lantsova, A. Akchasova, "World Politics and International Relations", *Mirovaya Politika i Mejdunarodniye Otnoşeniya*, Moskova: Piter, p. 296.

Federation.⁵⁵ Its production was decreased with the fall of the USSR but it regained its power by updating its technology.⁵⁶ The second one is the Federal State Unitary Enterprise Central Dispatching Department of Fuel and Energy Complex.^{57 58} The mid to long term policies of two giant companies; Rosoboronexport, the sole Russian state intermediary agency responsible for import/export of the full range of defense and dual-use end products, technologies and services, and Gazprom, the largest extractor of natural gas and one of the largest companies in the world, are known to have direct influence on foreign policy.

2.3 The Concept of State Controlled Companies

The final curtain on the Cold War brought along capitalism and free-market economy waves across the world, resulting in a process of privatization and liberalization on a global scale. In this period, Russia and China had been the two countries that struggled to resist this current. The Russian Federation, in particular, lost a substantial amount of its political and economic power due to rapid privatization following the fall of the USSR.⁵⁹ With Putin in power as the president, Russia has adopted the policy of regaining state control over privatized companies in the fields of energy, telecommunication, mining and military industry in order to reestablish its once-lost power.

⁵⁵ Russian: Военно-промышленная комиссия при Правительстве Российской Федерации, acronym, VPK.

⁵⁶ Erel Tellal, "Zümrüdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.198.

⁵⁷ Russian: Центральное диспетчерское управление топливно-энергетического комплекса, acronym, CDU TEK.

⁵⁸ Federal State Unitary Enterprise, "Central Dispatching Department of Fuel Energy Complex", <http://www.cdu.ru/about/>, retrieved on 7 January 2013.

⁵⁹ For more information on the issue: Boris Kagarlitskiy, "Rusya'da Kapitalizm Neden Tutmadı?", *Metis Yayınları*, İstanbul, 1996.

First steps to achieve this goal have been to make state power felt over some institutions that had been privatized for pennies on the dollar and their new owners. The most prominent example of this new attitude is the Yukos affair.⁶⁰ As Kononczuk underlines;

The 'Yukos affair' was an important stage in the evolution of Russia's political system, indeed one of its turning points. The 'Yukos affair' brought about serious changes in the relations between government and big business – the business representatives have been ultimately deprived of any possibility to act autonomously. The 'Yukos affair' has been a catalyst for a fundamental transformation in the Russian oil sector and the energy sector as a whole.⁶¹

The Yukos affair, reached a final with the founder of the company Mikhail Khodorkovsky and an executive Platon Lebedev to be arrested for the charges of tax fraud and jail sentences for both. Another prominent businessman, Boris Berezovsky had also fallen foul of the Kremlin, and was yet another target for Putin's war against oligarchs.⁶²

The second step was to create new institutions instead of the oligarchic ones in order to take the economic development under the control of the government. As Vadim Volkov argues;

In 2006, Russian state officials invented two basic frameworks for investing public funds and restructuring state enterprises. The first was the formation of an open joint-stock company with majority state ownership, a fairly conventional solution for managing the public sector in many countries. The second framework was invented by Sergei Chemezov, another of Putin's close colleagues and friends. This second framework represents a truly innovative solution. The idea is to use the legal shell of a

⁶⁰ Sinan Oğan, "Putin'in Oligarşiyi Millileştirme Çabaları: Yukos Olayı", *Stratejik Analiz*, Ankara, Volume 4, Number 44, December 2003, p. 17.

⁶¹ Wojciech Kononczuk, "The 'Yukos Affair', Its Motives and Implications", *Centre for Eastern Studies*, Warsaw, August 2006, http://www.osw.waw.pl/sites/default/files/PRACE_25.pdf, retrieved on 10 January 2013.

⁶² Ibid.

nonprofit NGO to create a statutory corporation and delegating to it the power of managing investment funds and enterprises.⁶³

The term “state-controlled company” refers to the enterprises which are controlled by the governments of a particular state. In the case of Russian Federation, state owned enterprise means enterprises where the state has significant control, through full, majority, or significant minority ownership.⁶⁴ Direct and indirect ownership at any level of government, at least 10% is enough for a company to be called as “state controlled”.⁶⁵ Through these companies, the government mainly aims industrial development, innovation and a diversified economy. As Sprenger points out⁶⁶, state ownership has three basic extents in RF:

a) Joint Stock Companies: There are two kinds of joint stock companies in Russia. The first one is “*Open Joint Stock Companies*” which is widely used throughout Russia and referred as a three letter acronym, OAO⁶⁷. Open Joint Stock Company is a legal entity where shares may be publicly traded without the permission of other shareholders. An OAO can distribute its shares to an unlimited number of shareholders and sell them without limitations. The second one is “*Closed Joint Stock Companies*”, ZAO.⁶⁸ A closed Joint Stock Company is a legal entity whose shares are distributed among a limited number of shareholders - maximum 50. A shareholder can sell his shares to a third party, which is not a shareholder, only if two other shareholders approve this. In this case, other shareholders have primary right to acquire these

⁶³ Vadim Volkov, “Russia’s New “State Corporations” Locomotives of Modernization or Covert Privatization Schemes?”, *PONARS Eurasia Policy Memo*, Washington, Number 25, August 2008, p. 1-2.

⁶⁴ OECD, “Guidelines on Corporate Governance of State-owned Enterprises”, 2005, <http://www.oecd.org/corporate/corporateaffairs/corporategovernanceofstateownedenterprises/34803211.pdf>, retrieved on 10 January 2013.

⁶⁵ Carsten Sprenger, “State-Owned Enterprises in Russia”, *Presentation at the OECD Roundtable on Corporate Governance of SOEs*, Moscow, October 27, 2008.

⁶⁶ Carsten Sprenger, “State-Owned Enterprises in Russia”, *Presentation at the OECD Roundtable on Corporate Governance of SOEs*, Moscow, October 27, 2008.

⁶⁷ Russian: Otkritoye Aktsionernoye Obshestvo (Открытое Акционерное Общество).

⁶⁸ Russian: Zakritoye Aktsionernoye Obshestvo (Закрытое Акционерное Общество).

shares.⁶⁹ OAO Gazprom, OAO Rosoboronexport, OAO Sberbank, OAO RZD (Russian Railways), OAO Transneft, ZAO Translogistika, ZAO Danske Bank can be given as examples to the open and closed joint stock companies in Russia.

b) Unitary Enterprises: A unitary enterprise based on the right of economic management is created by the decision of a state agency or agency of local self-government empowered to do so.⁷⁰ Unitary enterprises are business entities that have no ownership rights to the assets they use in their operations.⁷¹ Unitary enterprises can be established at the federal, regional or municipal levels. Russian acronyms are FGUP (Federal State Unitary Enterprise), GUP (State Unitary Enterprise), and MUP (Municipal Unitary Enterprise), respectively.⁷² Companies like FGUP Post of Russia, FGUP RosMorPort, FGUP SevRAO and FGUP VNIISV are samples for unitary enterprises. It is essential to underline that until its evolution to an open joint stock company in early 2000's, Rosoboronexport itself was a federal unitary enterprise (FGUP), too.

c) State Corporations: The state corporation is a legal form of uncommercial organization in Russia. This form differs from that of a joint stock company with the majority role of the state, as well as from the state united companies.⁷³ In particular, the state corporation is not bound by the "open information" requirement, which is mandatory for the open joint stock companies, neither is it bound by the law on bankruptcy. Also, the state corporations are not under control of some state organs.⁷⁴ State corporations were originally heralded as drivers of

⁶⁹ Avesta Business Consulting, "Comparative Description of Foreign Business Forms in Russia", Moscow, 2005, <http://www.avesta-bc.ru/files/61.pdf>, retrieved on 9 January 2013.

⁷⁰ The Civil Code of the Russian Federation, "The Unitary Enterprise Based on The Right of Economic Management", Chapter 4-4, Article 114-1, <http://www.russian-civil-code.com/PartI/SectionI/Subsection2/Chapter4.html>, retrieved on 9 January 2013.

⁷¹ Wikipedia, "Unitary Enterprise", http://en.wikipedia.org/wiki/Unitary_enterprise, retrieved on 9 January 2013.

⁷² Carsten Sprenger, "State Ownership in The Russian Economy: Its Magnitude, Structure and Governance Problems", *Social Science Research Network (SSRN)*, New York, February 2010, p.4.

⁷³ For more information on the issue: John P. Davis, "Corporations", *Beard Books*, Washington, 2000.

⁷⁴ Russian Investment Opportunities, "The State Corporation", <http://www.investinginrussia.ru/ppp/gk/>, retrieved on 9 January 2013.

economic growth, diversification and innovation. They also were viewed as a vehicle to stimulate private investment using state money and help Russian companies compete in the world economy.⁷⁵ In the second half of 2007, the process of establishing various state corporations has gathered some momentum⁷⁶. In particular, the following state corporations are formed: “Vnesheconombank” (The Bank for Development and Foreign Economic Affairs), “Rosatom” (The State Atomic Energy Corporation), “Rostechologies”, “Rosnanotech”, “Olympstroj”.

Russian strategy to control large enterprises as a state often draws criticism from the West. The complaints focus on the lack of competition, specific legal frameworks for the state corporations and of course on Russian attitude towards using these SOE’s as foreign policy weapons. The marriage of business and politics has led to charges that companies such as Gazprom have wielded their power to punish countries, which had drifted from Russia's orbit.⁷⁷ We will dig into this later in the thesis.

The following two chapters will contain detailed information on the state run companies of Gazprom and Rosoboronexport, and provide theses as to how they are used as means and tools of foreign policy.

⁷⁵ Anastasia Urnova, “Russian State Corporations: A Stabilizing Economic Force or a Drag on Growth?”, *Wilson Center Kennan Institute*, Washington, <http://www.wilsoncenter.org/publication/russian-state-corporations-stabilizing-economic-force-or-drag-growth>, retrieved on 9 January 2013.

⁷⁶ Russian Investment Opportunities, “The State Corporation”, <http://www.investinginrussia.ru/ppp/gk/>, retrieved on 9 January 2013.

⁷⁷ Peter Finn, “Kremlin Inc. Widening Control Over Industry”, *Washington Post*, 19 November 2006, <http://www.washingtonpost.com/wp-dyn/content/article/2006/11/18/AR2006111801012.html>, retrieved on 10 January 2013.

CHAPTER 3

GAZPROM

3.1 Early Years of Russian Gas and Foundation of Gazprom

The first natural gas lamps in Russia were used in the island of Aptekarsky near St. Petersburg in 1819. When the businessmen started trading it, cities of Moscow, St. Petersburg, Kharkov, Rostov, Odessa, Kiev, Riga, Vilno, Tver and Kazan were introduced to natural gas.⁷⁸ The city of Baku led by a production of 33 mcm natural gas annually after the industry began to use it in 1917, as well. 1930s experienced a rise in production but the production levels increased significantly due to the vast reserves discovered in Kuibyshev in 1942. The first pipeline between Kuibyshev and Bouguruslan (160 km long) was built in 1943. The 843 km-long pipeline, built in 1944, between Moscow and Saratov provided Saratov with an economic boom.⁷⁹ Ten regions were connected via pipelines and the flow of natural gas across the country improved until 1960. The Siberian Era of Russian gas started when great reserves were discovered in Siberia in 1966.⁸⁰

In the same period, Moscow became a natural gas hub due to its connections to other regions and, thus, became the centre for the whole gas distribution.⁸¹ With the discoveries of

⁷⁸ David G. Victor, Amy M. Jaffe, Mark H. Hayes, "Natural Gas and Geopolitics from 1970 to 2040", Cambridge Press, U.K, 2006, p. 58.

⁷⁹ Ibid.

⁸⁰ Ibid.

⁸¹ For more information on the issue: Pami Aalto, "Russia's Energy Policies: National, Interregional, and Global Levels", Pami Aalto (ed.), *Edward Elgar Publishing*, UK, 2012.

more reserves in the regions of Urengoy, Ural and Volga from 1970 to late 1980s, Russia became a major natural gas producer.⁸²

In 1989, President Mikhail Gorbachev established the Ministries of Oil and Gas within the framework of economic reforms. Later that year, the Ministry of the Gas Industry transformed itself into a new corporation called Gazprom.⁸³ The institution was assigned the authority to produce, distribute and sell natural gas and Viktor Chernomyrdin⁸⁴ was appointed as its director. Russia easily obtained the lion share of the natural gas reserves in the region with the help of its vast territory of more than 17 million km² and strong state institutions that it inherited from the Soviet era as opposed to the Commonwealth of Independent States, small states that were established after the fall of the USSR with no experience to govern themselves. Gazprom, on the other hand, was the company to carry out the energy policies but it was affected by the collapse of the USSR, resulting in the loss of one-third of pipelines and one-fourth of production capacity outside of Russia.

The influence of the company Gazprom visibly increased by the appointment of its director Chernomyrdin as the Prime Minister in 1992 by the President Boris Yeltsin. Chernomyrdin's position assured that Gazprom's interests were to be well served in the Presidential Administration.⁸⁵ Viktor Chernomyrdin's activities fostered the gas industry development and laid the foundation for Gazprom to become a global energy leader.⁸⁶ Soon after his appointment, the transformation of Gazprom from a wholly owned state concern into

⁸² Mazhar Yasin Tüylüoğlu, "Gazprom ve Rus Dış Politikasına Etkileri", *Jeopolsar Uluslararası İlişkiler İnternet Dergisi*, Ankara, May 2006, retrieved on 15 May 2011.

⁸³ Cindy Hurst, "The Militarization of Gazprom", *Military Review*, Leavenworth, September-October 2010, <http://fmso.leavenworth.army.mil/documents/Militarization-of-Gazprom.pdf>, retrieved on 27 January 2013.

⁸⁴ Viktor S. Chernomyrdin (1938-2010), a prominent figure in Russian politics in the 1990's. He is the founder and the first chairman of Gazprom, Minister of Gas Industry of the Soviet Union (1985-1989), longest serving Prime Minister of the Russian Federation (1992-1998).

⁸⁵ Marshall Goldman, "Petrostate: Putin, Power, and the New Russia", *Oxford University Press*, US, 2008 p.35.

⁸⁶ Gazprom, "History", <http://www.gazprom.com/about/history/people/chernomyrdin/>, retrieved on 22 January 2013.

the quasi privately owned Russian Joint Stock Company occurred⁸⁷ with a Presidential Decree on November 5, 1992.⁸⁸

In accordance with the Russian Federation President Decree of November 5, 1992, the Company is vested with the obligations like providing reliable gas supply to consumers in the Russian Federation, exporting gas under interstate and intergovernmental agreements, pursuing an integrated sci-tech and investment policy with regard to the UGSS upgrade and development, building and financing high pressure gas laterals in order to gasify rural areas, exercising control over the UGSS and providing other producers with access to the national gas transmission system.⁸⁹

On February 17, 1993, according to the resolution of the Russian Federation Government⁹⁰, pursuant to the Decree of the Russian Federation President, Gazprom State Gas Concern was converted into a joint stock company.^{91 92} In the second half of 1990s, however, major disagreements between Gazprom and high ranking state officials began to emerge. The Russia Federation had imposed extra taxes on the imports from Baltic countries, such as Estonia, on the grounds that these countries were discriminating against the Russian minorities living there. Gazprom, on the other hand, pursued contrasting policies by increasing its investments and reviving trade relations in these countries. Another major breakaway of Gazprom from the official ideology happened in 1995 when Gazprom declared that it would no longer provide Serbia natural gas due to its overdue payments even though

⁸⁷ Stergos Carl, Thornton Kaloudis, "Gazprom and Russia: The Economic Rationality of Russian Foreign Energy Policy", *Dissertation to the Catholic University of America*, Washington, 2009, p.50.

⁸⁸ See Presidential Decree #1333 of November 5, 1992, on the transformation of the State gas concern Gazprom into Russian Joint Stock Company Gazprom.

⁸⁹ Gazprom, "Gazprom in Questions and Answers Book 2011", http://eng.gazpromquestions.ru/fileadmin/files/2012/view_version_eng_16.08.2012.pdf, p.4, retrieved on 25 January 2013.

⁹⁰ See the Resolution of the council of Ministers of the Government of the Russian Federation #138 of February 17, 1993, on the establishment of Russian Joint Stock Company Gazprom.

⁹¹ Gazprom, "History", <http://www.gazprom.com/about/history/events/15years/>, retrieved on 18 January 2013.

⁹² Jonathan P. Stern, "The Future of Russian Gas and Gazprom", *Oxford University Press*, UK, 2005, p.170.

the country had deep historical and political ties with Russia.⁹³ With this threat, the impact of Gazprom over Russian Foreign Policy substantially increased.

Five years, following 1995 witnessed the effort to reduce the influence of Gazprom, as well as the power struggle between the Gazprom director Viktor Chernomyrdin, who was known to be close to the President Yeltsin, and politicians like Anatoly Chubais and Boris Nemtsov⁹⁴ who were vowing to “bring Gazprom around”.⁹⁵

Despite the fact that, in economic terms, 1997 is the most successful year in Russian economy since the collapse of the USSR, Chernomyrdin removed from the office on 23 March 1998. With Chernomyrdin’s removal from the Prime Ministry, a young reformer, Sergei Kirienko took the office and gave start to a new wave of political moves against Gazprom.⁹⁶ These policies eventually caused a standstill in the affairs of the Company between 1998 and 2000. In the meanwhile, political and economic instability was affecting core businesses and there were problems partly because of corruption claims. As a result, a group of oil rich Russian oligarchs were emerged when Yeltsin left the office in 31 December 1999.⁹⁷

3.2 Rise of Gazprom

2000s marks the era when Russia, and consequently, Gazprom, got over the shock of the collapse of the USSR and began to rise again. This unexpected rise of the company was of vital importance in Russia’s raise as a state. When the performance of first years was compared to the latest performance of the company, the results, in fact, show an accordance with the quote by the renowned German Politician Otto von Bismarck when he said “Russian

⁹³ Stergos Carl Thornton Kaloudis, “Gazprom and Russia: The Economic Rationality of Russian Foreign Energy Policy”, *Dissertation to the Catholic University of America*, Washington, 2009, p.56-57.

⁹⁴ Christian Caryl, “Who makes Russia’s Foreign Policy Anyways? Russian Banks, Big Oil, and Gas--That’s Who”, *US News and World Report*, 8 February 1998, http://www.usnews.com/usnews/news/articles/980216/archive_003225_print.htm, retrieved on 25 January 2013.

⁹⁵ See Kaloudis for further information about the power struggle in late 90’s in Russian Federation.

⁹⁶ Jonathan P. Stern, “The Future of Russian Gas and Gazprom”, *Oxford University Press*, UK, 2005, p.175.

⁹⁷ Ibid.

cavalry gets on his horse very slowly but gallops away”.⁹⁸ Gazprom started the new millennium with a change in the driver's seat. “In 2000, after the annual shareholders meeting, Gazprom’s directors changed leadership. Dmitri Medvedev was elected as the new chairman to replace Viktor Chernomyrdin. Meanwhile, in 2001, the CEO of Gazprom was replaced with Alexey Miller⁹⁹, the deputy Minister of Energy and another Putin ally”.¹⁰⁰ Appointment of Alexey Miller, a close friend and an acquaintance of Putin from the times when he was the Mayor of St. Petersburg, as the CEO of Gazprom was a turning point in the history of the company. With Miller, as idealist as Putin, at its wheel, Gazprom started to rise and hit the headlines across the world in a short time. In this new era, the Company summarizes its goals as the large-scale development of natural gas production and transportation facilities, diversification of gas supply routes and geography, establishment of a civilized market relations with the consumers in the domestic market and in the former Soviet Union republics and the startup of the Company's structural reforming”.¹⁰¹

Putin has summed up Gazprom’s new major objectives that have set in the new era: “Gentlemen! We must get out of this slough of shame that we fall into after the dissolution of the USSR, immediately. We must bring Russia's reputation and power back. This must be our duty. This responsibility is honorable, noble and sacred just as it requires sacrifice”.¹⁰² Indeed, the RF is in an effort to achieve these goals in the only field that she can lead, natural gas. In doing so, Russia uses Gazprom, which is privatized without being left out of state control.

⁹⁸ Mazhar Yasin Tüylüoğlu, “Gazprom: Rus Süvarisi”, “Rusya Çalışmaları Stratejik Araştırmalar – 2”, İhsan Çomak (ed.), *TASAM Yayınları*, İstanbul 2009, p.103.

⁹⁹ Alexey B. Miller (1962-), former Deputy Energy Minister (2000), Chairman of the Management Committee of Gazprom (2001-) and Deputy Chairman of the Gazprom Board of Directors (2002-).

¹⁰⁰ Cindy Hurst, “The Militarization of Gazprom”, *Military Review*, Leavenworth, September-October 2010, <http://fmso.leavenworth.army.mil/documents/Militarization-of-Gazprom.pdf>, retrieved on 27 January 2013.

¹⁰¹ Gazprom, “History”, <http://www.gazprom.com/about/history/events/15years/>, retrieved on 18 January 2013.

¹⁰² Erdal Şafak, “Avrupa’yı Titreten Adam Miller”, *Sabah*, 8 January 2006, http://www.sabah.com.tr/Ekiler/Pazar/Yazarlar/safak/2006/01/08/Avrupa_yi_titreten_adam_Miller, retrieved on 20 January 2013.

Putin emphasizes this characteristic of the Company, in a speech¹⁰³ on the occasion of Gazprom's 10th year celebrations on 17 February 2003: "Gazprom, as a strategically important company, should be kept, and has been kept, as a single organism. (...) Gazprom is a powerful political and economic lever of influence over the rest of the world".¹⁰⁴ Thus, the support and patronage of Vladimir Putin can be regarded as one of the most important factors behind Gazprom's rapid ascent.

The rise of Gazprom as a SOE in 2000's is closely related with transparent management style as well as Putin's direct support and encouragement. As an open joint stock company, Gazprom's main management structure is composed of three bodies. The first one, General Shareholders Meeting is the supreme management body of OAO Gazprom and is held annually. GSM is competent to introduce changes in the Company's Charter, approve the annual report and the auditor, distribute profits, elect the Board of Directors and the Audit Commission, and take decisions upon restructuring or dissolution of the Company as well as on increasing or decreasing its equity capital.¹⁰⁵ The second body is the Board of Directors which carries out the general management of the Company. The members of the Board of Directors are elected by the GSM for a period until the next annual meeting.¹⁰⁶ Currently, former Prime Minister (2007-2008) Viktor A. Zubkov is heading the board of directors of Gazprom. Thirdly, executive bodies are responsible for the executive management of Gazprom. These are the Management Committee Chairman (Alexey Miller) and the Management Committee (collective executive body of 17) who manage the current activities of the Company. Chairman and Members of the Management Committee are elected by the Board of Directors for a five-year term.¹⁰⁷ Gazprom's management maintains a constant

¹⁰³ Michael Fredholm, "The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence", *Conflict Studies Research Centre*, Oxford, Russian Series 05/41, September 2005, p.19.

¹⁰⁴ Catherine Belton, "Putin Says Gazprom Too Powerful to Break Up", *The Moscow Times*, 17 February 2003, <http://www.themoscowtimes.com/business/article/putin-says-gazprom-too-powerful-to-break-up/240360.html>, retrieved on 28 January 2013.

¹⁰⁵ Gazprom, "Management", <http://www.gazprom.com/about/management/>, retrieved on 24 January 2013.

¹⁰⁶ Ibid.

¹⁰⁷ Ibid.

dialog with shareholders, various investor groups, and analysts by organizing regular meetings, press conferences, and presentations of OAO Gazprom's strategic plans and operating results in Russia and the world's largest financial centers.¹⁰⁸

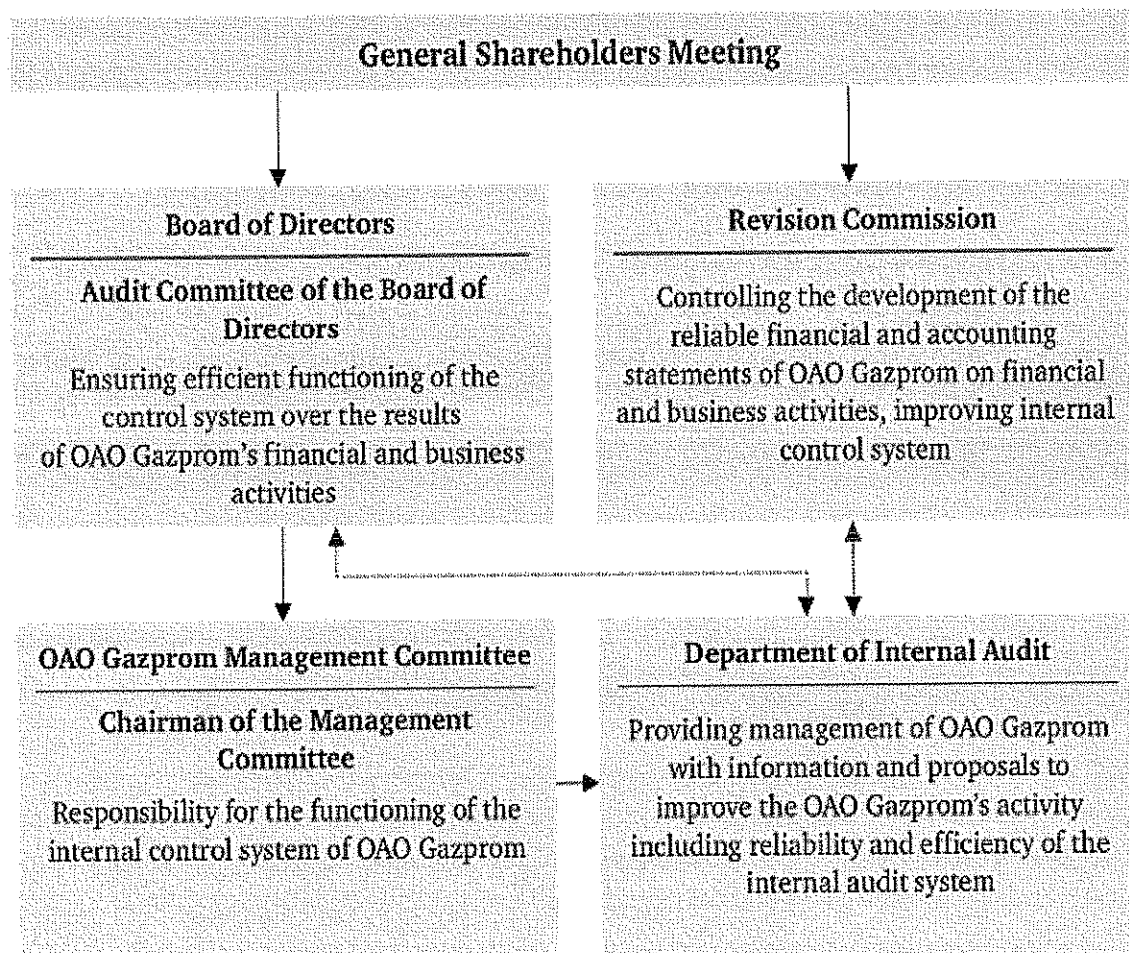


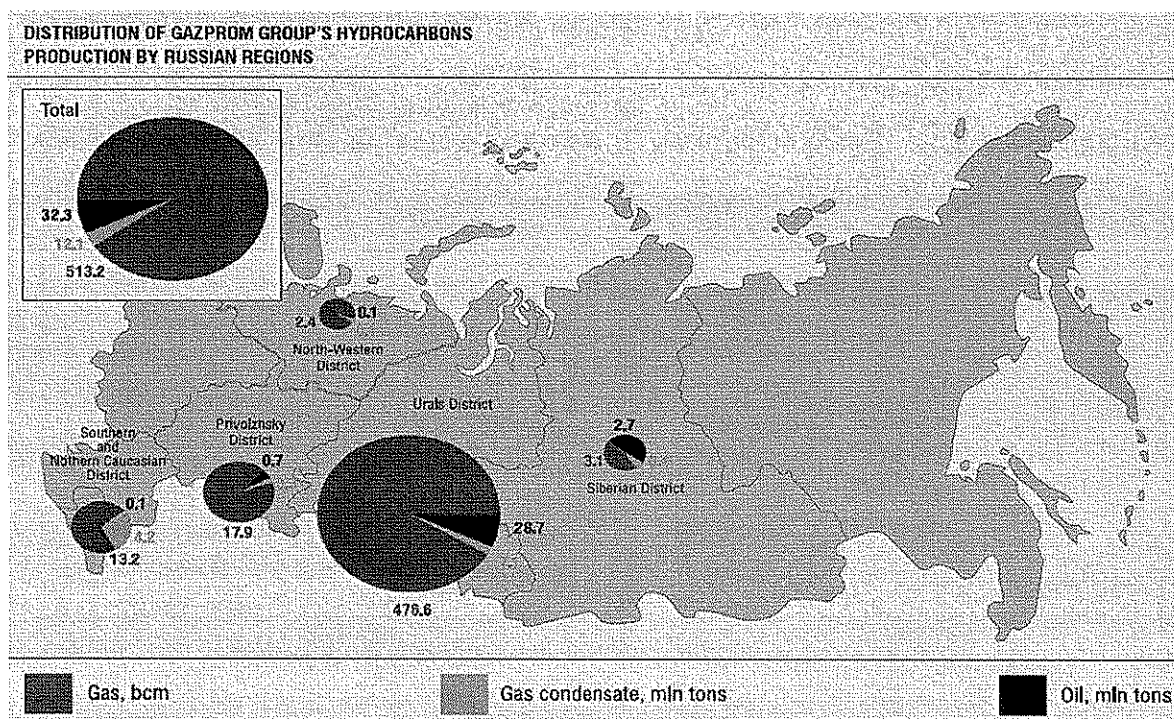
Figure 2. Gazprom Decision Making System - 2011

Source: Gazprom, "Gazprom Annual Report 2011", <http://www.gazprom.com/f/posts/51/402390/annual-report-2011-eng.pdf>, retrieved on 24 January 2013.

¹⁰⁸ Gazprom, "Gazprom Annual Report 2010", <http://www.gazprom.com/f/posts/57/370859/gazprom-annual-report-2010-en.pdf>, retrieved on 24 January 2013.

3.3 Current Situation of Gazprom

Gazprom's current situation is covered by many enterprises around the globe. Today, Gazprom is producing %15 of world's and %77 of Russian gas while holding %18 of world's and %72 of Russian gas reserves.¹⁰⁹ The Company is not only Russia's biggest state-owned enterprise, but also the largest gas producer in the world with 6.988 operating gas-producing wells in Russia.¹¹⁰



Map 1. Distribution of Gazprom's Hydrocarbons Production by Regions

Source: Gazprom, "Gazprom Annual Report 2011", <http://www.gazprom.com/f/posts/51/402390/annual-report-2011-eng.pdf>, retrieved on 24 January 2013.

¹⁰⁹ Tatiana Mitrova, "Gazprom's Perspective on International Markets", *CSS (Centre for Security Studies)*, Zurich, Russian Analytical Digest, Volume 41, Number 08, 20 May 2008, p.2.

¹¹⁰ Katinka Barysch, "Introduction" in "Pipelines, Politics and Power: The Future of EU-Russia Energy Relations", Katinka Barysch (ed.), *Centre for European Reform*, London, October 2008, p.1.

Producing hydrocarbons is one thing but to sustain the production capacity is another. Gazprom attaches great importance to investments on proved reserves and finding new gas fields. Currently, the Company holds 35 trillion cubic meters of natural gas, 1.4 billion tons of gas condensate and 1.8 billion tons of oil reserves. The total value of these reserves reaches up to \$299.2 billion.¹¹¹

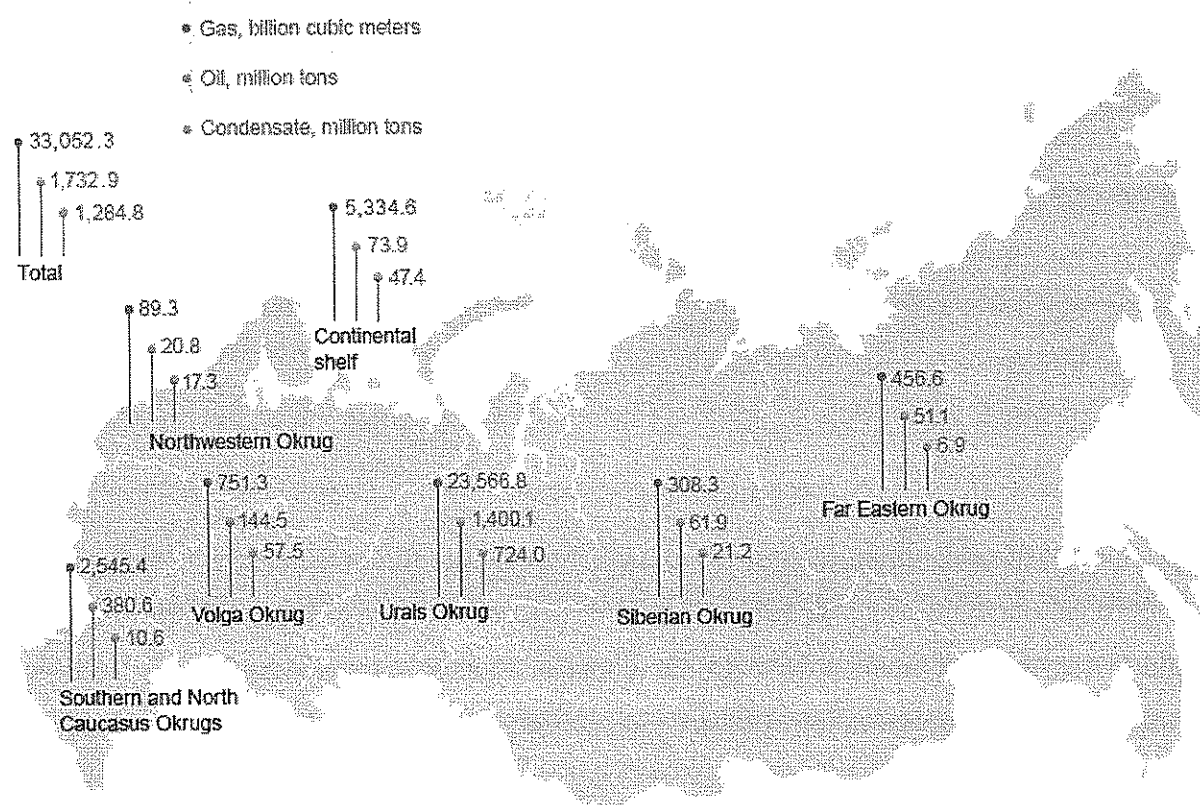


Figure 3. Distribution of Hydrocarbon Reserves of Gazprom by Regions

Source: Gazprom, "Gas and Oil Reserves", <http://www.gazprom.com/about/production/reserves/>, retrieved on 24 January 2013.

¹¹¹ Tatiana Mitrova, "Gazprom's Perspective on International Markets", *CSS (Centre for Security Studies)*, Zurich, Russian Analytical Digest, Volume 41, Number 08, 20 May 2008, p.4.

In order to describe the limits of Gazprom's capacity and the huge assets owned by the company, we should underline some of the other indicators. Gazprom's gas sales¹¹² reached to a lucrative 4.735 million Russian Rubles as of 31 December 2011. The number was 3.661 million RR in 2010 and 3.118 million RR in 2009 respectively. In the meanwhile, profits from the sales are doubled in two years from 844 million RR in 2010 to 1.622 million RR in 2012. OAO Gazprom contract gas prices reached their maximum in the fourth quarter of 2011 with an average price of \$416.65/tcm.¹¹³

Gazprom Group sold 156.6 bcm of natural gas in Far Abroad (European) countries and 81.7 bcm in former Soviet Union countries in 2011. "The Company holds a dominant position as a supplier of natural gas, first of all in Eastern & Central Europe and in the Balkans. Russia also acts as a middleman in gas exports to Europe from post-Soviet Central Asia".¹¹⁴ One of the main export markets of Gazprom is Europe from which the company's %80 of gas export revenues derives. In order to maintain its position in this market, the Company is constantly exploring new gas fields and keeping the pipelines loaded. Gazprom also plans to increase its exports to Europe from 140 bcm to 152 bcm in 2013. However in 2012, Europe's natural gas demand decreased partly because of the economic recession and latest developments on energy efficiency activities.¹¹⁵

One of the most important aspects of Gazprom's current power is the pipeline systems that spread around Eurasia. "Gazprom has almost total control over natural gas transport within Russia and maintains a de facto monopoly of Russian natural gas exports due to its hold over the gas transportation infrastructure".¹¹⁶ Gazprom owns the world's largest gas

¹¹² For more information on the issue : Gazprom, "Gazprom in Figures 2007-2011 Factbook, <http://www.gazprom.com/f/posts/51/402390/gazprom-reference-figures-2007-2011-eng.pdf>, retrieved on 30 January 2013.

¹¹³ Ibid.

¹¹⁴ Agata Loskot-Strachota, Katarzyna Pelczyńska-Nalęcz, "Gazprom's Expansion in the EU – Co-operation or Domination?", *Center for Eastern Studies*, Warsaw, April 2008, p.8.

¹¹⁵ Faruk Akkan, "Rusya, 2013'de Türkiye Dahil Avrupa Doğalgaz Fiyatlarını Düşürüyor", *Cihan*, 19 December 2013, <http://www.cihan.com.tr/caption/Rusya-2013-de-Turkiye-dahil-Avrupa-dogalgaz-fiyatlarini-dusuruyor-CHODkwMTYwLzM=>, retrieved on 29 January 2013.

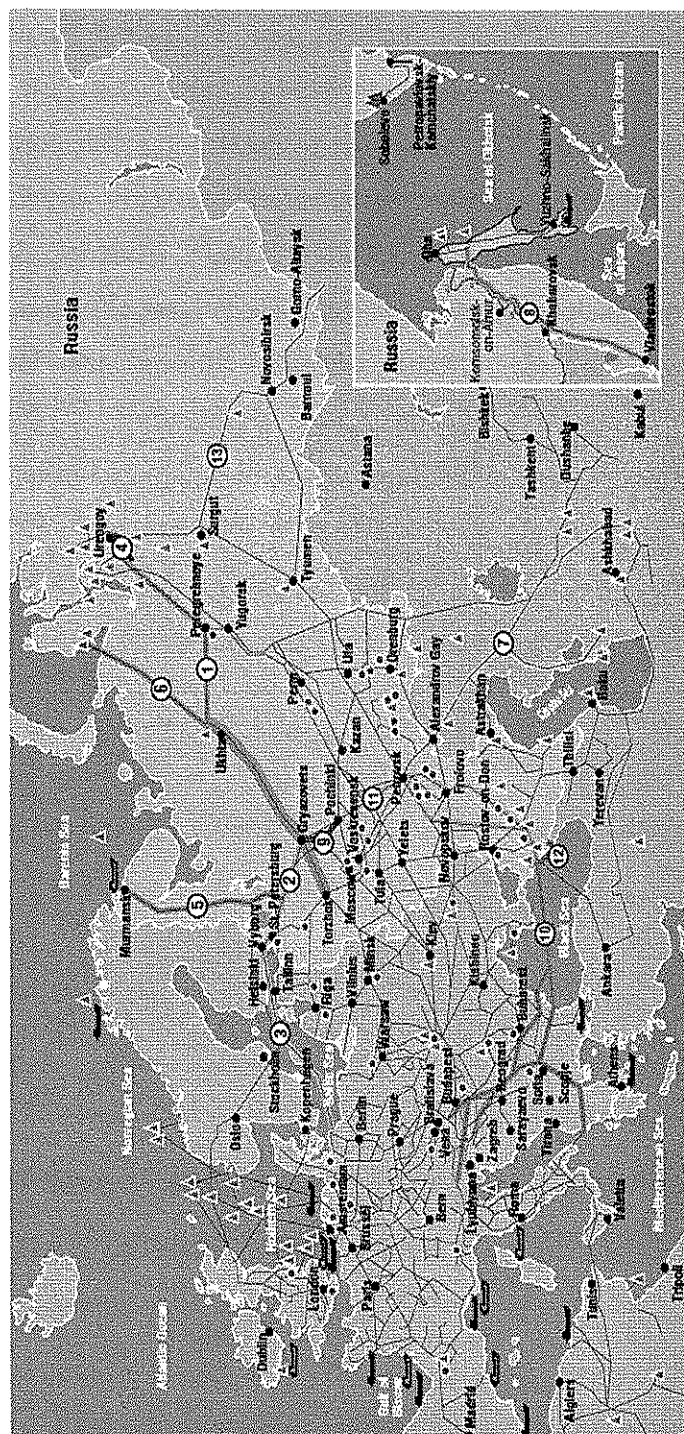
¹¹⁶ Michael Fredholm, "Gazprom in Crisis", *Conflict Studies Research Centre*, Oxford, Russian Series,, 06/48, October 2006, p.3.

transportation system (The Unified Gas Supply System) with a pipeline length of 164.7 thousand km in Russia. The UGSS is a common centralized system for treatment, transportation and storage of natural gas.¹¹⁷ The volume of natural gas transported through these lines is 683.2 bcm. annually. "The firm exports natural gas to a large number of countries, including Germany, France, Belgium, Italy, Britain, Austria, Switzerland, Netherlands, Turkey, Hungary, Czech Republic, Slovakia, Poland, Finland, Bulgaria, Romania, Serbia, Montenegro, Slovenia, Croatia, Greece, Bosnia and Herzegovina, Macedonia, Ukraine, Belarus, Moldova, Lithuania, Latvia and Estonia".¹¹⁸ (See map 2) Existing natural gas lines and Russia's pipeline diplomacy will be examined further in the next part.

¹¹⁷ Gazprom, "Gazprom in Figures 2007-2011 Factbook, <http://www.gazprom.com/f/posts/51/402390/gazprom-reference-figures-2007-2011-eng.pdf>, retrieved on 30 January 2013.

¹¹⁸ Michael Fredholm, "Gazprom in Crisis", *Conflict Studies Research Centre*, Oxford, Russian Series,, 06/48, October 2006, p.3.

EURASIAN GAS TRANSPORTATION SYSTEM



Gazprom's gas transportation projects:

- | | | | | | |
|---|--|----|--|----|---|
| 1 | SRTG – Torzhok | 7 | Sections of gas transportation system in Central Asia under development and reconstruction, including Prikaspiyskiy gas pipeline | 18 | Dzhubga – Lazarevskoye – Sochi |
| 2 | Gryazovets – Vyborg | 8 | Gas transportation system Sakhalin – Khabarovsk – Vladivostok | 19 | Altay |
| 3 | Nord Stream | 9 | Pochinki – Gryazovets | 20 | Major gas pipelines |
| 4 | Expansion of the Urengoy gas transportation unit | 10 | South Stream route options | 21 | Gas fields |
| 5 | Murmansk – Volkhov | 11 | Expansion of the UGSS for gas supply to South Stream gas pipeline | 22 | Major underground storage facilities (UGSF) |
| 6 | Bovanenkovo – Ukhra and Ukhra – Torzhok | 12 | | 23 | Operating LNG terminals |
| | | 13 | | 24 | Potential LNG terminals |

Map 2. Eurasian Gas Transportation System

Source: Gazprom, “Gazprom in Figures 2006–2010 Factbook”, <http://www.gazprom.com/f/posts/55/477129/gazprom-reference-figures-2006-2010-en.pdf>, p.43, retrieved on 21 December 2012.

Being such a large-scale venture company directly affected the number of staff employed by Gazprom. "Gazprom Group's companies have 404.4 thousand employees, including 25.9 thousand employed by the Group's companies registered outside Russia, as of 31 December 2011".¹¹⁹ The Company, even has its own "Gazprom Army" with the authority to carry firearms and responsible for the safety of pipelines and production facilities.¹²⁰ This privileged position of Gazprom often draws criticism from the West¹²¹ however the company has earned appreciation and admiration in Russia, particularly from the management level.

The operating figures of Gazprom Group can further be viewed from the table below:

¹¹⁹ Gazprom, "Gazprom Annual Report 2011", <http://www.gazprom.com/f/posts/51/402390/annual-report-2011-eng.pdf>, retrieved on 24 January 2013.

¹²⁰ Trude Pettersen, "Gazprom Army Entitled to Carry Firearms", *Barents Observer*, 16 January 2009, <http://barentsobserver.com/en/node/20360>, retrieved on 26 January 2013.

¹²¹ Huffington Post, "Gazprom, Russia's Largest Company, Acts More like a Government", 14 February 2009, http://www.huffingtonpost.com/2009/01/14/gazprom-russias-largest-c_n_157858.html, retrieved on 26 January 2013.

OPERATING RESULTS				
	2009	2010	2011	Change 2011/2010
Gas production in Russia				
<i>Gazprom Group's production, bcm</i>	461.5	508.6	513.2	0.9 %
Associated companies' production attributable to <i>Gazprom Group's</i> interest, bcm	7.4	10.5	11.3	7.6 %
Gas Condensate production in Russia				
<i>Gazprom Group's production, mln tons</i>	10.1	11.3	12.1	7.1 %
Associated companies' production attributable to <i>Gazprom Group's</i> interest, mln tons	0.7	0.9	1.0	11.1 %
Crude oil production in Russia				
<i>Gazprom Group's production, mln tons</i>	31.6	32.0	32.3	0.9 %
Associated companies' production attributable to <i>Gazprom Group's</i> interest, mln tons	19.1	20.7	20.5	-1.0 %
Hydrocarbons refining				
Natural and associated gas refining, bcm	30.4	33.6	33.2	-1.2 %
Oil and gas condensate refining, mln tons	44.3	50.2	53.5	6.6 %
Sales of Gas				
Sales of gas in Russia, bcm	262.6	262.1	265.3	1.2 %
Sales of gas in Far Abroad countries, bcm	148.3	148.1	156.6	5.7 %
Sales of gas in FSU countries, bcm	67.7	70.2	81.7	16.4 %
FINANCIAL RESULTS				
	2009	2010*	2011	Change 2011/2010
Sales, RR mln	3,118,462	3,661,699	4,735,822	29.3 %
Profit from sales, RR mln	844,499	1,161,832	1,622,289	39.6 %
Net profit, RR mln	634,119	771,242	1,000,900	29.8 %
Capital expenditures, RR mln	634,976	883,310	1,327,699	50.3 %

Figure 4. Gazprom Group's Operating Results

Source: Gazprom, "Gazprom Annual Report 2011", <http://www.gazprom.com/f/posts/51/402390/annual-report-2011-eng.pdf>, retrieved on 21 January 2013.

3.4 Gazprom as a Foreign Policy Instrument and Pipeline Diplomacy

It has been expressed by many experts that Russia is using state controlled companies as an instrument in pursuing its foreign policy. These claims are not entirely baseless and deserve merit. Because Russia, continuously sends messages to the Central and Eastern European countries as well as the FSU republics which tend to stay out of Russia's orbit, through Gazprom. In fact, it cannot be said that this policy of Russia is new. Similar policies were followed in 1960's and 1970's by the Soviet management. As Goldman notes;¹²²

The earlier surge in Soviet petroleum output and the corresponding increase in exports in the 1960s and 1970s provided Soviet leaders with a particularly effective economic and foreign policy weapon. It opened doors in the third world for Soviet ideology and diplomatic initiatives that otherwise might have remained closed or just half open. Countries in the struggling regions of Asia, Africa, and Latin America in that era generally welcomed the radical rhetoric propagated by the USSR but often hesitated to turn their backs completely on their former colonial masters for fear of economic reprisals and export embargoes. In particular, radical leaders in the third world feared that if they became too tied to the Soviet Union or went so far as to nationalize the Western oil companies' distribution network as did Cuba and Ceylon (renamed Sri Lanka in 1972), the United States would arrange with the so-called Seven Sisters capitalist oil companies to embargo the delivery of the petroleum essential to running their economies.

Goldman's refers to giant oil companies which dominated the global petroleum industry in the years between 1940's and 1970's by citing "Seven Sisters".¹²³ He also compares Gazprom with these companies in terms of global dominance. Goldman is not alone in singling out Gazprom's control over the monopoly. Carola Hoyos from Financial Times updated the list of Seven Sisters and declared "New Seven Sisters" in an article dated 2007. According to Hoyos, the most influential national gas and oil companies are composed of China National Petroleum Corporation (China), Gazprom (Russia), National Iranian Oil

¹²² Marshall Goldman, "Petrostate: Putin, Power, and The New Russia", *Oxford University Press*, UK, 2008, p.43.

¹²³ The initial "Seven Sisters" are composed of; Anglo-Persian Oil Company (now BP), Gulf Oil, Standard Oil of California (SoCal), Texaco (now Chevron), Royal Dutch Shell, Standard Oil of New Jersey (Esso), Standard Oil Company of New York (Socony) (now ExxonMobil). The term is first used by Enrico Mattei (head of Italian state oil company, ENI) in 1950's.

Company (Iran), Petrobras (Brazil), PDVSA (Venezuela), Petronas (Malaysia) and Saudi Aramco (Saudi Arabia).¹²⁴

Globally dominant Gazprom has intensified its internationalization efforts in the last couple of years. "The company has focused its expansion strategy on Europe, its main consumer market".¹²⁵ Gazprom's existence in Europe depends on three principles: Gazprom as a supplier (exporter) of gas, Gazprom as a co-owner of transport infrastructure and Gazprom as an actor on the final gas market."¹²⁶ The Company currently has investments in a number of countries. Although it is somewhat impossible to list all its subsidiaries partly because Gazprom is using different enterprises in each country to avoid resistance to its investments abroad, we possess enough concrete data to argue that the Company is conquered the continent in terms of energy. According to Gazprom's official website, the Company holds %100 ownership of 80, %50 and above ownership of 32 and below %50 ownership of 40 entities in 35 countries and in Russia.¹²⁷ "Russia seeks to ensure control over oil and gas pipeline routes both across her territory and elsewhere in order to gain leverage in relationships with both potential allies and adversaries".¹²⁸ Nicklas Norling also draws attention to the significance of this policy, which is also known as the "pipeline diplomacy". In Norling's words;

What makes pipelines and natural gas carry such strategic importance are primarily the means of transportation and market access. While oil has a global market and is shipped mainly via tanker, natural gas is primarily delivered via pipeline (with the exception of Liquefied Natural Gas (LNG)

¹²⁴ Carola Hoyos, "The new Seven Sisters: Oil and Gas Giants Dwarf Western Rivals", *Financial Times*, March 2007, <http://www.warregoenergy.com/story/documents/FT%20The%20New%20Seven%20Sisters.pdf>, retrieved on 28 January 2013.

¹²⁵ Andreas Heinrich Koszalin, "Gazprom's Expansion Strategy in Europe and the Liberalization of EU Energy Markets", *CSS (Centre for Security Studies)*, Zurich, Russian Analytical Digest, Number 34, 5 February 2008, p.8.

¹²⁶ Agata Loskot-Strachota, Katarzyna Pelczyńska-Nałęcz, "Gazprom's Expansion in the EU – Co-operation or Domination?", *Center for Eastern Studies*, Warsaw, April 2008, p.8.

¹²⁷ Gazprom, "Subsidiaries", <http://www.gazprom.com/about/subsidiaries/subsidiary/>, retrieved on 28 January 2013.

¹²⁸ Mark A. Smith, "A Review of Russian Foreign Policy", *Conflict Studies Research Center*, Oxford, Russian Series 07/20, July 2007, p.8.

which can be delivered via sea-transport) and the market is subsequently limited to the length of the pipeline. In consequence, natural gas cannot be exported globally or sold at any spot market to the prevailing world market price.¹²⁹ Since the pipeline binds consumer with producer and excludes everyone else, natural gas often carries greater strategic significance than oil because of the dependency relationship and political leverage the pipeline creates.¹³⁰

Russia, through Gazprom and the infrastructure and superstructure owned by Gazprom have made Europe dependent on Russian gas and thanks to the Company's presence in many European countries have obtained a vital trump card in diplomatic and political relations.

If building natural gas pipelines and establishing partnerships with local energy companies in European countries is one pillar of Gazprom's Europe policy, modifying gas prices from country to country is another. Currently, Russia charges between \$75 and \$97 per thousand cubic meters on the domestic market. On the other hand, most of the former Soviet states pay in the mid-\$200s and Europe pays \$350 to \$450 per tcm.¹³¹ The average price of the Russian gas in the European market was \$390 in 2011.¹³² The Company's lack of a fixed price policy resulting with some countries purchase the gas cheaper and some in expensive prices are significant evidences that Gazprom is a tool of foreign policy.

In this respect, the most striking example is the Ukrainian Gas Dispute of 2006, without a doubt.¹³³ The Orange Revolution in Ukraine, starting after the presidential elections in 2004 and ending with Viktor Yushchenko's presidency on 23 January 2005 was not welcomed by Russia partly because Ukraine with the revolution turned her face to the West

¹²⁹ Friedemann Muller, "The Role of Iran and the Region for Global Energy Supply," in Eugene Whitlock (ed.), "Iran and Its Neighbors: Diverging Views on a Strategic Region", *German Institute for International and Security Affairs*, Berlin, July 2003, p. 69.

¹³⁰ Nicklas Norling, "Gazprom's Monopoly and Nabucco's Potentials: Strategic Decisions for Europe", *Silk Road Studies Paper*, Washington, November 2007, p.9

¹³¹ Euractiv, "Russia's Natural Gas Dilemma", 11 April 2012, <http://www.euractiv.com/energy/russias-natural-gas-dilemma-analysis-512092>, retrieved on 29 January 2013.

¹³² Reuters, "Gazprom Adjusts Gas Prices for European Companies", 17 January 2012, <http://www.reuters.com/article/2012/01/17/gazprom-europe-prices-idUSL6E8CH38C20120117>, retrieved on 29 January 2013.

¹³³ Adam Blinick, "Pipeline Diplomacy", *The New Atlantis*, Washington, Number 21, Summer 2008, p.125.

and determined her goals to become a part of Western alliance by gaining EU and NATO membership. Felt threatened by the Orange Revolution, Russia wanted to flex her diplomatic muscles on her sphere of influence and made her move towards the end of 2005.¹³⁴ RF increased the price of natural gas flows to Ukraine 4-fold. After mutual accusations and several negotiations Ukraine has accepted to pay \$230/tcm to Russian gas, of which she was paying \$50/tcm until the crisis, thus froze and removed the conflict. The comments about the globally echoed incident all around the world share a common point that Russia is punishing an old ally for its foreign politic choices by using Gazprom as a weapon. This crisis between Russia and Ukraine repeated at intervals until Viktor Yanukovych, a relatively pro-Russian politician who does not have a NATO or an EU agenda, took the presidency office on 25 February 2010. According to an agreement signed between D. Medvedev and V. Yanukovych on 21 April 2010, Russia¹³⁵, has accepted to make a discount of %30 on natural gas exports to Ukraine and set the price to \$234/tcm. In response, Ukraine has extended the lease agreement of Russian Naval Base in Sevastopol for another 25 years.¹³⁶ The question of “how much Ukraine will pay for Russian gas?” is closely related with the possible developments in the Russian Foreign Policy in the coming years.¹³⁷

In 2010, an incident similar to Ukrainian Gas Crisis happened between Russia and Belarus, and Russia threatened to cut gas supplies to the country unless Belarus pays the debt that has reached to \$192 million.¹³⁸ It can be argued that there is a foreign policy related motivation hidden behind this move, too as this event happened closer to the date of

¹³⁴ Ziba Norman, “Russia’s Gas Weapon”, *International Herald Tribune*, 21 December 2005.

¹³⁵ Ivan Watson, Maxim Tkachenko, “Russia, Ukraine Agree on Naval-Base-for-Gas Deal”, *CNN*, 21 April 2010, <http://edition.cnn.com/2010/WORLD/europe/04/21/russia.ukraine/index.html?hpt=T2>, retrieved on 29 January 2013.

¹³⁶ Anatoly Medetsky, “Deal Struck on Gas, Black Sea Fleet”, *The Moscow Times*, 22 April 2010, <http://www.themoscowtimes.com/business/article/deal-struck-on-gas-black-sea-fleet/404501.html>, retrieved on 29 January 2013.

¹³⁷ Türkrus, “Moskova'dan Kiev'e Yeni Yılda “Ülmatom”: “Ya AB üyeliği, Ya Ucuz Gaz...”, 3 January 2013, <http://www.turkrus.com/ekonomi/59119/moskovadan-kieve-yeni-yilda-ultimatom-ya-ab-uyeligi-ya-ucuz-gaz.html>, retrieved on 29 January 2013.

¹³⁸ Reuters, “Russia Threatens to Cut Belarus Gas Supplies Monday”, 18 June 2010, <http://www.reuters.com/article/2010/06/18/russia-forum-belarus-idUSLDE65H0DE20100618>, retrieved on 29 January 2013.

establishment of the Customs Union formed by Russia, Belarus and Kazakhstan. Gazprom's pricing policy draws criticism and attention upon both the Company and Russia. It is advocated that "profit maximization" is not Gazprom's priority and that different pricings for natural gas is closely related with foreign politic reasons. Genuinely, Gazprom's dominance over the European natural gas market is increasingly becoming a concern among Europe's policy-makers.¹³⁹

"The Europeans are very aware of Russia's intentions to spread its influence by exploiting differences among European countries and burying any concept of European unity. Russia would prefer to negotiate deals such as energy contracts with individual states, rather than the European Union as a whole. This would allow Russia to reward countries that cooperate with Moscow (such as Germany) with more favourable conditions and punish countries that do not (such as Ukraine)".¹⁴⁰

¹³⁹ Nicklas Norling, "Gazprom's Monopoly and Nabucco's Potentials: Strategic Decisions for Europe", *Silk Road Studies Paper*, Washington, November 2007, p.2.

¹⁴⁰ Ibid.

Table 1. Gazprom Group's Gas Supply to Europe and FSU Countries

	For the year ended December 31,				
	2007	2008	2009	2010	2011
	bcm				
Russia	307.0	287.0	262.6	262.1	265.3
Far abroad					
Austria	5.4	5.8	5.4	5.6	5.4
Belgium	4.3	3.4	0.5	0.5	—
Bosnia and Herzegovina	0.3	0.3	0.2	0.2	0.3
Bulgaria	2.8	2.9	2.2	2.3	2.5
Croatia	1.1	1.2	1.1	1.1	—
Czech Republic	7.2	7.9	7.0	9.0	8.2
Finland	4.7	4.8	4.4	4.8	4.2
France	10.1	10.4	8.3	8.9	8.5
Germany	34.5	37.9	33.5	35.3	34.1
Greece	3.1	2.8	2.1	2.1	2.9
Hungary	7.5	8.9	7.6	6.9	6.3
Italy	22.0	22.4	19.1	13.1	17.1
Macedonia	0.1	0.1	0.1	0.1	0.1
Poland	7.0	7.9	9.0	11.8	10.3
Romania	4.5	4.2	2.5	2.6	3.2
Serbia	2.1	2.2	1.7	2.1	2.1
Slovakia	6.2	6.2	5.4	5.8	5.9
Slovenia	0.6	0.6	0.5	0.5	0.5
Switzerland	0.4	0.3	0.3	0.3	0.3
The Netherlands	5.5	5.3	4.3	4.3	4.5
Turkey	23.4	23.8	20.0	18.0	26.0
United Kingdom	15.2	7.7	11.9	10.7	12.9
Other countries	0.5	0.6	1.2	2.1	1.3
Total to far abroad	168.5	167.6	148.3	148.1	156.6
FSU countries					
Armenia	1.9	2.1	1.7	1.4	1.6
Belarus	20.6	21.1	17.6	21.6	23.3
Estonia	0.9	0.6	0.8	0.4	0.7
Georgia	1.2	0.7	0.1	0.2	0.2
Kazakhstan	10.0	9.6	3.1	3.4	3.3
Latvia	1.0	0.7	1.1	0.7	1.2
Lithuania	3.4	2.8	2.5	2.8	3.2
Moldova	2.7	2.7	3.0	3.2	3.1
Ukraine	59.2	56.2	37.8	36.5	44.8
Uzbekistan	—	—	—	—	0.3
Total to FSU countries	100.9	96.5	67.7	70.2	81.7
Total	576.4	551.1	478.6	480.4	503.6

Source: Gazprom, “Gazprom Annual Report 2011”, <http://www.gazprom.com/f/posts/51/402390/annual-report-2011-eng.pdf>, retrieved on 21 January 2013.

Vladimir Putin has sensed that the World balance begun to shift on energy and envisioned a country with its vast resources and powerful elite in charge of effective state companies, just like the mighty old Soviet days. Thus Gazprom became an energy giant in a little while and began to exhibit noticeable effects on both domestic and foreign policy of RF. Until a few years ago, energy and energy related issues were regarded only as political instruments; however, they are the most basic elements of the RFP today. Pami Aalto from Tampere University also underlines Gazprom's significance in RFP by determining energy as the only dynamic component of Russia's great power status.¹⁴¹ As argued before, Russia pursues the policy of gaining political benefits by using energy as a trump card over Gazprom, a policy which is very evident regarding especially the FSU countries. The examples of Ukraine and Belarus are proofs of Gazprom's prominent position.¹⁴²

Energy has opened a new window in the dialogue between Russia and the EU and NATO. Previously, issues like several border disputes, NATO and EU enlargement on the direction of Russia and democracy in Russia were determining the agenda in relations between Russia-EU¹⁴³ and Russia-NATO but in recent years, energy have become the main agenda item in high-level summits. RF has very successfully integrated Gazprom to the developments in the global arena and particularly to the policies that she pursues in FSU countries also known as "backyard". Russia, with charismatic leader Putin in charge, has always kept his energy weapon loaded and gained freedom of action in foreign policy through Gazprom.

¹⁴¹ Pami Aalto, "The Gazprom Factor in Russian Politics - Quo Vadis, Russia? Perspectives of Russian Politics "After" Putin", *University of Tampere*, Finland, 3 April 2008, p.4.

¹⁴² Mazhar Yasin Tüylüoğlu, "Gazprom ve Rus Dış Politikasına Etkileri", *Jeopolsar Uluslararası İlişkiler İnternet Dergisi*, May 2006, retrieved on 15 May 2011.

¹⁴³ For more information on the issue: European Commission, "EU-Russia Energy Dialogue the First Ten Years 2000-2010", http://ec.europa.eu/energy/publications/doc/2011_eu-russia_energy_relations.pdf, retrieved on 30 January 2013.

CHAPTER 4

ROSOBORONEXPORT

4.1 Establishment of Rosoboronexport

Rosoboronexport has begun to commence operations on May 8, 1953 as a first state-controlled unit after The Council of Ministers of the Union of Soviet Socialist Republics took a decision to establish a General Engineering Unit within the Internal and External Trade Ministry in order to develop technical and military cooperation with foreign states. On the purpose of ensuring development of military and technical cooperation activities further, various private foreign trade structures has been generated after aforementioned date.¹⁴⁴ However, the General Engineering Unit was the first independent entity of the USSR which was responsible for military and technical cooperation with foreign countries.¹⁴⁵

In 1968, for constructing military facilities overseas and reparation of exported arms and military equipment, the General Technical Unit was founded apart from the General Engineering Unit. In 1989, a General Cooperation Unit was created on a basis which comprises particular sections of these units. The General Cooperation Unit was primarily responsible for cooperation with the Warsaw Pact member states.¹⁴⁶

As of early 1990s, Russia's arms export policies, norms and agencies experienced transformations. In 1992, the General Engineering Unit and the General Technical Unit became respectively "Oboronexport" and "Spetsvneshtekhnika" named autonomous external

¹⁴⁴ Rosoboronexport, "Rosoboronexport History", http://www.roe.ru/cite/roe/eng_history.html, retrieved on 18 November 2012.

¹⁴⁵ Embassy of the Russian Federation in Malaysia, "Historical Background", <http://www.malaysia.mid.ru/roe/histor.htm> retrieved on 18 November 2012.

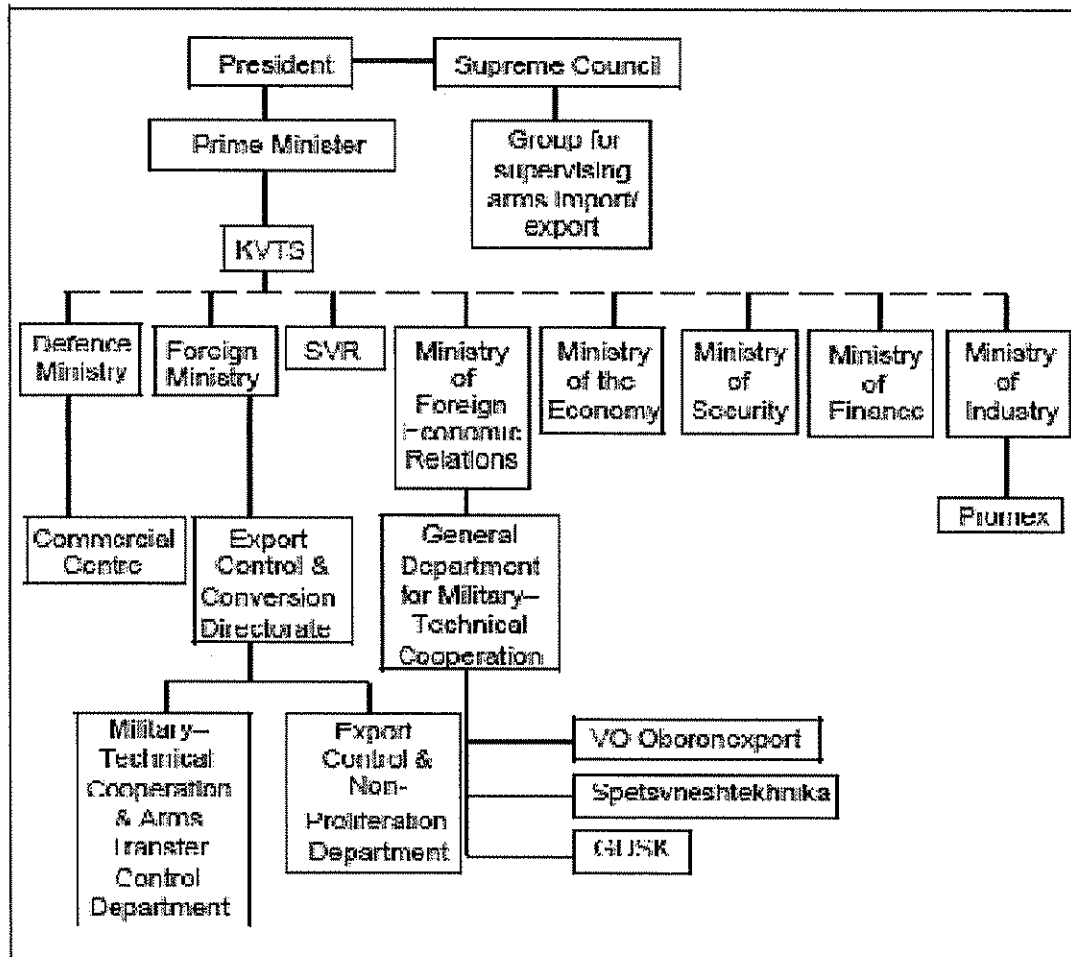
¹⁴⁶ Ibid.

commercial companies as a part of the External Economic Relations Ministry. In April 1992, Boris Yeltsin signed an enactment on probable measures for creation of export control and a month later he signed another enactment on developing military and technical cooperation between foreign countries and Russia.¹⁴⁷ The first new arms export decision-making system was introduced in Russia as of 2 January 1992. In contrast with the past, a mechanism for parliamentary control over arms exports was created.¹⁴⁸ (See Table 2.)

¹⁴⁷ Yevgeni M. Kozhokin, "Arms Export Controls: What Role for Parliament?" in Andrew J. Pierre and Dmitri V. Trenin (eds.), "Russia In The World Arms Trade, Carnegie Endowment for International Peace", *The Brookings Institution Press*, Washington D.C, 1997, p.52.

¹⁴⁸ Alexander A. Sergounin, Sergey V. Subbotin, "Russian Arms Transfers to East Asia in the 1990s", *Oxford University Press*, New York, 1999, p. 46.

Table 2. The Russian Arms Export Decision Making System – 1992



Source: Alexander A. Sergounin, Sergey V. Subbotin, "Russian Arms Transfers to East Asia in the 1990s", *Oxford University Press*, New York, 1999, p. 46.

SVR: Foreign Intelligence Service; **GUSK:** Central Directorate of Collaboration and Cooperation; **KVTS:** Interdepartmental Commission on Military-Technical Cooperation between the Russian Federation and Foreign countries.

Note: The broken line from the KVTS to the ministries indicates that the ministries are both represented on and subordinated to the KVTS.

The most important event of 1993 was on 25th of November, Yeltsin's approval of the enactment which paved the way for establishment of Rosvooruzheniye state company. This company was founded for arms and military equipment export/import; additionally entire authorization for exporting Russian arms was handed over to this company.¹⁴⁹ Before Rosvooruzheniye was founded, under the External Economic Relations Ministry's control, twelve companies were granted arms export authorization. The largest of these companies were aforementioned Oboronexport, Spetsvneshtekhnika, and Promexport, which was a part of defense industry system of the External Economic Relations Ministry.¹⁵⁰ Rosvooruzheniye was formed on the basis of Oboronexport and Spetsvneshtekhnika. In May 1994, with the approval of an enactment that provided participation right into military –technical cooperation between Russian Federation and foreign countries for the companies, conditions of obtaining export license for defense companies' own production were determined. As of this point, Yeltsin signed many enactments on defense industry companies' operations.

Under presidential decree no. 2251 of 30 December 1994, the State Committee on Military–Technical Policy was established and given principal authority over arms export questions within the executive power.¹⁵¹ The State Committee on Military–Technical Policy was not only responsible for strategic decisions but also examined more technical issues, such as licensing.¹⁵² (See Table 3.)

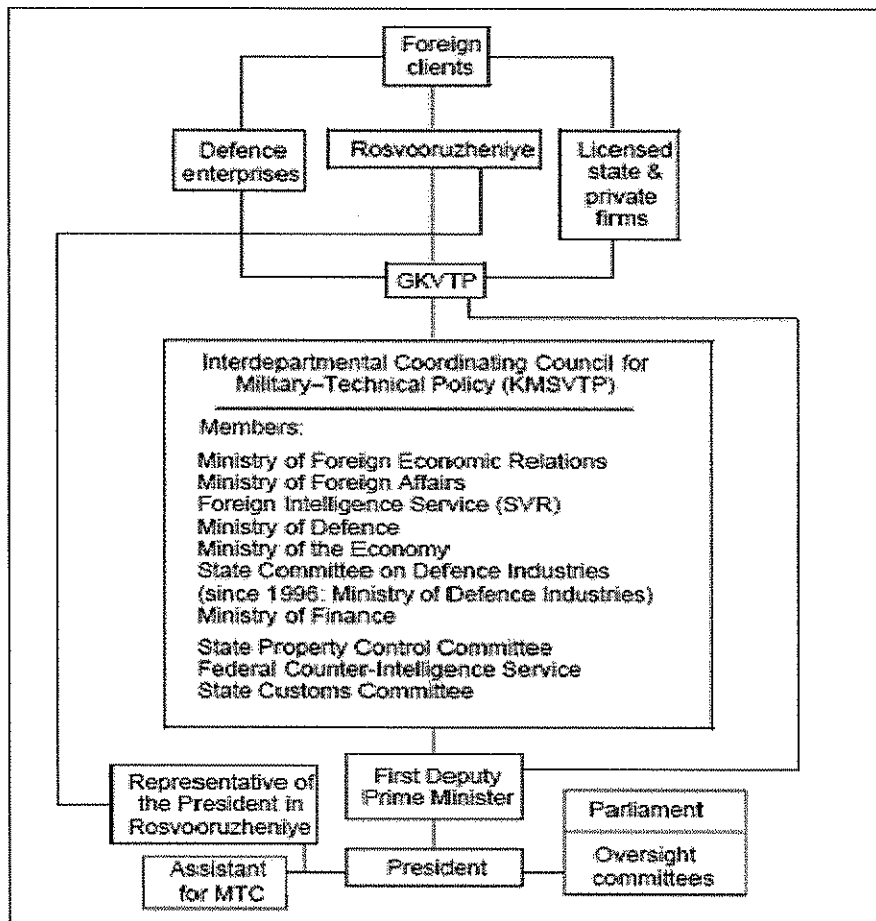
¹⁴⁹ Ilya Bulavinov, "Military-Industrial Complex History of the Sector 1991-2000", *Kommersant Russia's Daily Online*, December 2001, http://www.kommersant.com/tree.asp?rubric=3&node=36&doc_id=300257, retrieved on 18 November 2012.

¹⁵⁰ Ibid.

¹⁵¹ Alexander A. Sergounin, Sergey V. Subbotin, "Russian Arms Transfers to East Asia in the 1990s", *Oxford University Press*, New York, 1999, p.54.

¹⁵² Ibid.

Table 3. The Russian Arms Export Decision Making System – 1994



Source: Alexander A. Sergounin, Sergey V. Subbotin, "Russian Arms Transfers to East Asia in the 1990s", *Oxford University Press*, New York, 1999, p.54.

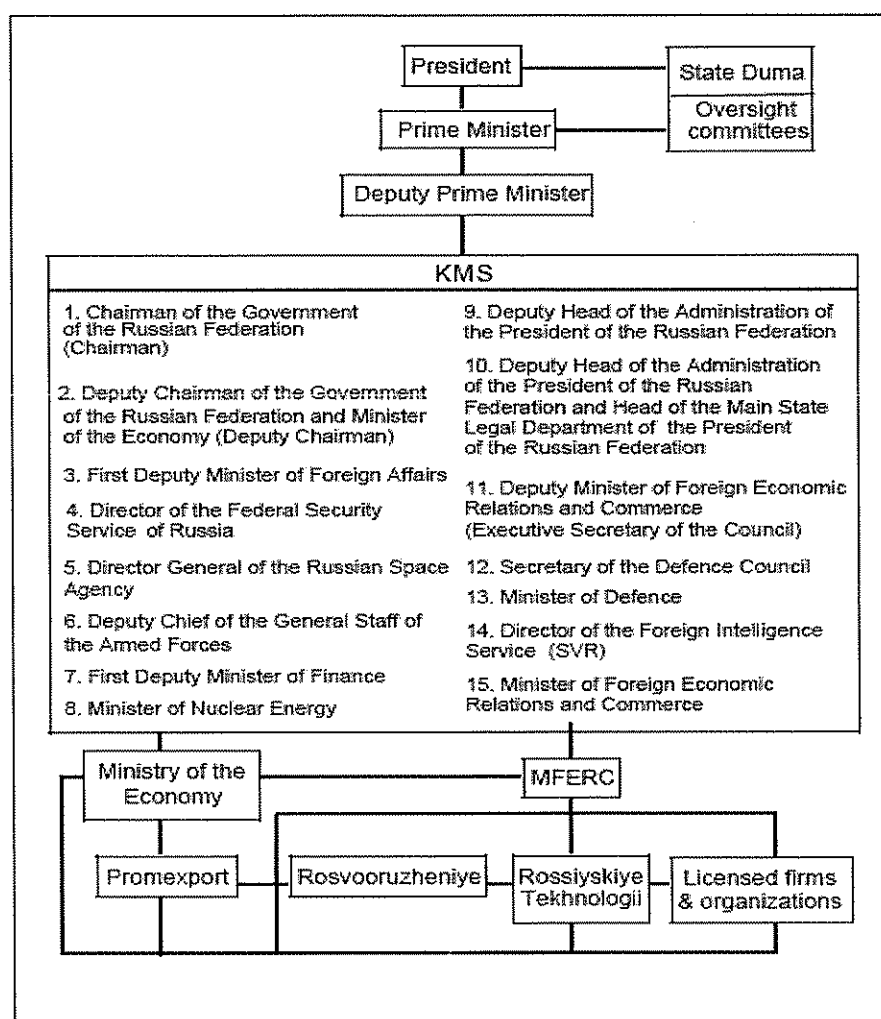
GKVTP: State Committee on Military-Technical Policy; **MTC:** Military Technical Cooperation.

On 21st of August 1997, Yeltsin made some changes on the system of military-technical cooperation with foreign countries. This cooperation system was handed over to directly the Prime Minister's control; and the Military-Technical Cooperation State Committee was abolished.¹⁵³ Furthermore, the name of the Company changed from

¹⁵³ Ibid.

Rosvooruzheniye to Rosvooruzheniye State Corporation. With the formation of Rosvooruzheniye State Corporation, Promexport¹⁵⁴ and Russian Technologies Company also acquired arms export authorization.(See Table 4)

Table 4. The Russian Arms Export Decision-Making System - August 1997



Source: Alexander A. Sergounin, Sergey V. Subbotin, "Russian Arms Transfers to East Asia in the 1990s", *Oxford University Press*, New York, 1999, p.60. **KMS:** Interdepartmental Coordinating Council on Military-Technical Cooperation between the Russian Federation and Foreign States **MFERC:** Ministry of Foreign Economic Relations and Commerce.

¹⁵⁴ In April, 1969 the All-Union Foreign Economic Association "Promzagranpostavka" was established as a part of the Ministry of Defence Industry of the USSR. In October, 1988 this organization was transformed into the "Promexport" All-Union Foreign Economic Association within the same Ministry.

In May 1999, during the restructuring of the Russian government, defense sections were separated from the Ministry of Economy. On the basis of these sections, four different departments were formed; Control Systems, Conventional Arms, Ammunition, and Ship Construction.¹⁵⁵

In 2000, with the decision of newly elected president Vladimir Putin, Russian Technologies Company was incorporated into Promexport. This action was considered as the first step towards integration of Rosvooruzheniye State Corporation and Promexport.¹⁵⁶ These entities, which were acting as the state's arms exporter, on 4th of November 2000 and with the enactment no. 1834 was integrated on the purposes of only state authority for defense products export, restructuring of military-technical cooperation system between Russian Federation and foreign countries, and increasing the performance. After the integration, the new entity was named as Rosoboronexport Federal State Unitary Enterprise.¹⁵⁷

The Deputy Head of Promexport, Andrey Belyaninov was the first head of Rosoboronexport Federal State Unitary Enterprise. The entity, which was named as Rosoboronexport State Corporation afterward, was responsible for entire export/import of defense and military areas as well as it carried out double-sided duties such as technologies and services.¹⁵⁸

The major purpose of Rosoboronexport's emergence was the desire for restructuring military-technical cooperation system between Russian Federation and foreign countries. In this respect, it shall not be incorrect to mention that Rosoboronexport's main goals were

¹⁵⁵ Ilya Bulavinov, "Military-Industrial Complex History of the Sector 1991-2000", *Kommersant Russia's Daily Online*, December 2001, http://www.kommersant.com/tree.asp?rubric=3&node=36&doc_id=300257, retrieved on 18 November 2012.

¹⁵⁶ Ibid.

¹⁵⁷ Rosoboronexport, "Rosoboronexport History", http://www.roe.ru/cite/roe/eng_history.html, retrieved on 18 November 2012.

¹⁵⁸ Ibid.

developing long term relations with foreign customers and ensuring Russia's progress in international arms market.¹⁵⁹

2000s witnessed a fierce competition between the United States and Russian Federation over global arms market. In this context, the United States has captured the first position at arms sales to developing countries; and Russia, with its arms transfer agreements, has taken second position by passing the United Kingdom and France.¹⁶⁰ Today, with its 30% share, the United States is the biggest actor of global arms trade while Russia holds position of second biggest arms exporter with its 24% share.¹⁶¹

In 2003, Rosoboronexport has been brought under the control of Military-Technical Cooperation Federal Service, which has been directly subject to the President, by separating from the Defense Ministry.¹⁶² Sergey V. Chemezov¹⁶³, who was the head of Promexport (13 September 1999 – 5 November 2000), was appointed as the head of Rosoboronexport with an enactment dated 13th of September 1999. In 2006, Rosoboronexport became affiliated to newly established Military-Industrial Commission.¹⁶⁴ When Rosoboronexport's activism in international arena bothered the United States, in August 2006 the United States imposed sanctions on Russian arms exporter Rosoboronexport and Russia's major fighter jet producer

¹⁵⁹ Global Security, "Military – Rosoboronexport (ROE)", <http://www.globalsecurity.org/military/world/russia/rosoboronexport.htm>, retrieved on 18 November 2012.

¹⁶⁰ Cameron Scott Mitchell, "Phoenix from the Ashes? Russia's Defense Industrial Complex and Its Arms Exports", *The Australian National University E-Press*, Australia, 2009, p. 9.

¹⁶¹ Sina Kısacık, "2000'li Yıllarda Hidrokarbon ve Silah Satışları Temelinde Gelişen Rus Ekonomisi", *International Policy Academy*, 31 July 2012, <http://politikaakademisi.org/?p=2054>, retrieved on 21 November 2012.

¹⁶² Cameron Scott Mitchell, "Phoenix from the Ashes? Russia's Defense Industrial Complex and Its Arms Exports", *The Australian National University E-Press*, Australia, 2009, p. 9.

¹⁶³ Sergey V. Chemezov for his biography, see: Louis-Marie Clauet, "Rosoboronexport, Spearhead of the Russian Arms Industry", *The Institut Français des Relations Internationales (IFRI) Russia/NIS Center Publications*, Paris, September 2007, p.16.

¹⁶⁴ Global Security, "Military – Rosoboronexport (ROE)", <http://www.globalsecurity.org/military/world/russia/rosoboronexport.htm>, retrieved on 18 November 2012.

Sukhoi by indicating their arms sales to Iran.¹⁶⁵ This situation was interpreted as retaliation against Russia's arms sales to Venezuela and condemned by Russian officials. In early 2007, Rosoboronexport began to expand its authority over civilian sector. This move was including such acts as integration and taking over companies in automotive and metallurgy sectors.¹⁶⁶ For instance, Russia's major automotive producer AvtoVAZ's control was handed over to Rosoboronexport. Furthermore, main supplier of Boeing, Airbus, and Rolls-Royce, global titanium producer VSMPO-Avisma's %66 share was bought by Rosoboronexport.¹⁶⁷ In this context, Rosoboronexport established a subsidiary company, named as AT-Spetstekhnologia, for producing and selling special metals that are essential for aviation and defense industries. Rosoboronexport's another subsidiary company, related to aviation sector, is Oboronprom. Oboronprom's %51.01 share is owned by the Russian Federation. Remaining capital's %31.13, %15.07, and %2.79 shares are respectively owned by Rosoboronexport, the Republic of Tatarstan, and helicopter producer Rostvertol.¹⁶⁸

Anatoly P. Isaykin, who was nominated as vice general director of Rosoboronexport in 2001, has been assigned as general director of the company by the decree of 26 November 2007.¹⁶⁹ Isaykin is still in charge.

4.2 Statistical Data about Rosoboronexport

Russia's state-run arms exporter Rosoboronexport accounts for 85% of the country's arms sales worldwide (as of 2010), with the remainder coming from several companies

¹⁶⁵ Jody Nesbitt, "U.S. Sanctions on Russian Arms Because of Venezuelan Arms Deal, says Russians", *Venezuela Analysis*, 10 August 2006, <http://venezuelanalysis.com/news/1879?page=32>, retrieved on 18 November 2012.

¹⁶⁶ Global Security, "Military – Rosoboronexport (ROE)", <http://www.globalsecurity.org/military/world/russia/rosoboronexport.htm>, retrieved on 18 November 2012.

¹⁶⁷ Louis-Marie Clauet, "Rosoboronexport, Spearhead of the Russian Arms Industry", *The Institut Français des Relations Internationales (IFRI) Russia/NIS Center Publications*, Paris, September 2007, p.10.

¹⁶⁸ Ibid.

¹⁶⁹ In 2001 he was appointed Deputy Director General of the Rosoboronexport State Corporation and put in charge of special equipment exports, advertising and defense shows, information technologies and security.

authorized to deal in arms on the global market.¹⁷⁰ Russian arms exports have soared, growing from \$3.7 billion in 2000 to \$5.8 billion in 2004 and from \$7.5 billion in 2007.¹⁷¹ Anatoly Isaykin, general director of the Rosoboronexport Company, stated that arms sales in 2009 are recorded as \$7.4 billion, with a rise of %10 in comparison to 2008, and the contracts concluded in 2009 are worth \$15 billion.¹⁷² By means of the contracts signed with 57 countries, arms and military equipment sales of the Rosoboronexport Company totaled around \$10.7 billion in 2011.¹⁷³ A report published by the Center for the Analysis of Strategies and Technologies foresees that sales in 2012 could reach to \$14 billion.¹⁷⁴

Rosoboronexport provides; army products (such as armour, missiles and artillery, engineer vehicles, infantry and special weapons, munitions disposal equipment), air force products (including attack aircraft and bombers, fighters, combat trainers, maritime patrol aircraft, military transport and special-purpose aircraft, combat helicopters, military transport and special-purpose helicopters, shipborne and multirole helicopters, unmanned air systems, training systems, aeroengines, avionics, armament, airfield equipment, integrated ground monitoring equipment, life support equipment, and space services), air defense products (such as missile and artillery systems, surveillance radars, command and control systems, test range equipment) and navy products (including submarines, surface warships, shipborne weapons, shipborne and stationary electronic systems, coastal weapon systems, and auxiliary vessels.)

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¹⁷⁰ Global Security, "Military – Rosoboronexport (ROE)", <http://www.globalsecurity.org/military/world/russia/rosoboronexport.htm>, retrieved on 18 November 2012.

¹⁷¹ Ibid.

¹⁷² Rianovosti, "Rosoboronexport Earned \$3.5 Bln Since Start Of 2010 - Ceo", 11 May 2010, <http://en.ria.ru/business/20100511/158967515.html>, retrieved on 18 November 2012.

¹⁷³ Ibid.

¹⁷⁴ For detailed information please see: CAST (The Center for the Analysis of Strategies and Technologies), "Russian Defense Industry and Arms Trade: Facts and Figures", http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 18 November 2012.

¹⁷⁵ Bloomberg Businessweek, "Company Overview of Rosoboronexport State Corporation", <http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=13484391>, retrieved on 18 November 2012.

The basic trade activities of Rosoboronexport include; organization of licensed armament and military equipment production abroad, maintenance and repairs of weapons, armaments, and military equipment supplied to customers, modernization of armaments and military equipment made in Russia, training of foreign specialists to operate and maintain supplied material in Russia and customer countries, technical assistance in building military infrastructure installations (such as defense enterprises, airfields, depots, firing grounds, training centers), promotion of innovative high-technology civil-purpose products developed by Russian defense industry enterprises.¹⁷⁶ According to all these activities, it could be said that Rosoboronexport is one of the most important part of the Federal Service for Military-Technical Cooperation of Russia. (See Figure 5)

¹⁷⁶ Global Security, "Military – Rosoboronexport (ROE)", <http://www.globalsecurity.org/military/world/russia/rosoboronexport.htm>, retrieved on 18 November 2012.

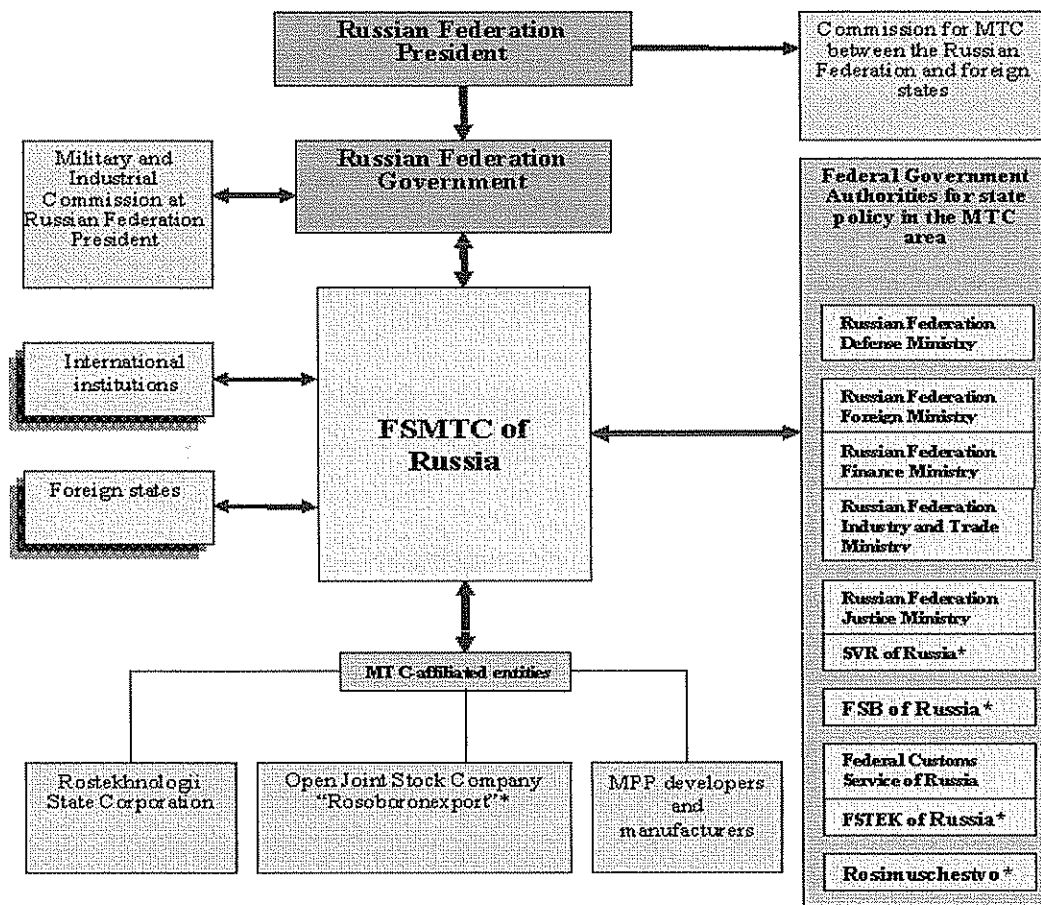
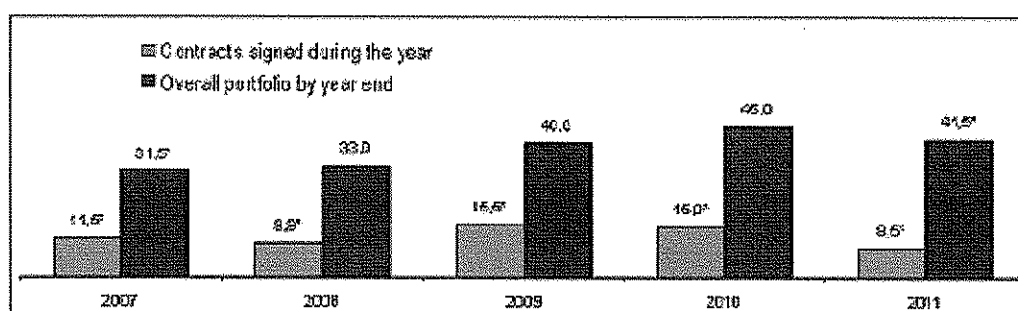


Figure 5. The Federal Service for Military-Technical Cooperation of Russia

Source: The Federal Service for Military-Technical Cooperation, "Organization", <http://www.fsvts.gov.ru/materialsf/1C815146FD9FD6DDC325789E0036249F.html>, retrieved on 20 December 2012.

Russia maintains cooperation with over 70 countries in the military-technical field that is largely realized with the products furnished by Rosoboronexport. The company carries out cooperation with over 700 agencies and institutes in Russian defense industry. Sukhoi and MiG fighters, helicopters, battle tanks, armored personnel carriers and infantry fighting

vehicles are the principal military equipment that foreign countries import from Russia.¹⁷⁷ It is the fact that Russia is looking to expand its presence on the world's arms market. In this framework 30% of total portfolio of Russia is consisting from arms exports portfolio. It must be taken into account that total exports do not equal Rosoboronexport exports plus direct spare parts contracts signed by independent supplies. The difference is made of deliveries still being made under weapons system contracts signed by other companies.¹⁷⁸ (See Figure 6. and Figure 7.)



	2007	2008	2009	2010	2011
Contracts signed during the year	11.5*	9.9*	15.5*	15.0*	8.5*
Overall portfolio by year end	31.5*	33.0	40.0	45.0	41.5*

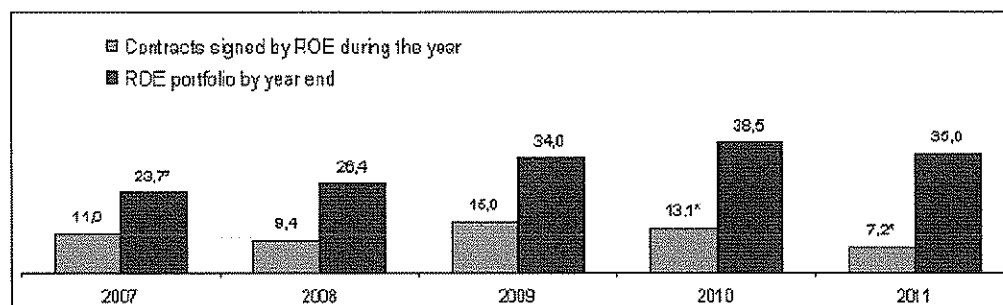
Figure 6. Russian Arms Exports Portfolio (Billion USD in current prices)

Source: CAST (The Center for the Analysis of Strategies and Technologies), “Russian Defense Industry and Arms Trade: Facts and Figures”, p.6, http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 18 December 2012.

* CAST Estimates. Rosoboronexport official data is also used in these estimates.

¹⁷⁷ Rianovosti, “Rosoboronexport Projects \$7 Bln in Arms Exports This Year”, <http://en.ria.ru/russia/20090422/121246584.html>, 22 April 2009, retrieved on 22 November 2012.

¹⁷⁸ CAST (The Center for the Analysis of Strategies and Technologies), “Russian Defense Industry and Arms Trade: Facts and Figures”, p.6, http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 18 December 2012.



	2007	2008	2009	2010	2011
Contracts signed by ROE during the year	11.0	9.4	15.0	13.1*	7.2*
ROE portfolio by year end	23.7*	26.4	34.0	38.5	35.0

Figure 7. Rosoboronexport Portfolio (Billion USD in current prices)

Source: CAST (The Center for the Analysis of Strategies and Technologies), “Russian Defense Industry and Arms Trade: Facts and Figures”, p.7. http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 18 December 2012.

* CAST Estimates.

4.3 Clients of Rosoboronexport

The head office of Rosoboronexport is situated in Moscow and the Company has 44 foreign branches. In addition, Rosoboronexport enjoys 19 coordination centers in different parts of Russia. The organizational structure of the Company consists of administration, regional marketing, import departments and support units. The Rosoboronexport Company provides after-sales services, modernization and repair services, not to mention arms exports.¹⁷⁹

The company seeks for new markets alongside with further develop relations with existing clients It carries out cooperation with over 70 countries, according to company’s

¹⁷⁹ Army Guide, “Rosoboronexport State Corporation”, <http://www.army-guide.com/eng/firm571.html>, retrieved on 22 November 2012.

website.¹⁸⁰ This entails Indonesia, Syria, Algeria, Uganda, Vietnam, Iraq, France, Norway, Germany, Venezuela, India, China, Belarus, USA, Azerbaijan, Egypt, Afghanistan, Bangladesh, Thailand, Spain, Kazakhstan, Canada, Finland, Brazil, Denmark, Greece, UAE, Sweden, Saudi Arabia, Australia, UK, Estonia, Taiwan, Chile, Myanmar, Kuwait, Czech Republic, Belgium, Colombia, Slovakia, the Netherlands, Ecuador, Morocco, Croatia, Austria, Switzerland, Lebanon, Malaysia, Luxembourg, Argentina, Turkey, Turkmenistan, Bulgaria, Portugal, Romania, Slovenia, Georgia, Jordan, Singapore, Nigeria, Kenya, Senegal, Jordan, Chad, Burkina Faso, Guinea, Ireland, Rwanda, Pakistan, Iran, South Africa, Italy, the Democratic Republic of Congo, Bahrain, Sudan, Yemen, Uganda, Zimbabwe, Ukraine, New Zealand, Lithuania, Eritrea, Angola, Gabon, Ethiopia, Tunisia, Brunei, Uzbekistan, Ghana, Macedonia, North Korea, Oman, Latvia and Botswana.

The contracts signed between Rosoboronexport and its clients are as following;

¹⁸⁰ Rosoboronexport, "Trade", http://www.roe.ru/roe/rus_status.html, retrieved on 29 January 2013.

Table 5. Contracts List of Rosoboronexport

CUSTOMER	PRODUCT	ADD DATE	CLOSE DATE	ANNUAL COST
AFGHANISTAN	Reconnaissance Vehicle	Jun 2012	Oct 2013	\$39,591,340
BANGLADESH	Main battle tank	Jul 2011	Oct 2013	\$53,500,000
CANADA	Reconnaissance Vehicle	Jun 2012	May 2016	\$117,600,000
DENMARK	Self-propelled gun	Sep 2012	Jan 2014	\$40,000,000
EGYPT	Main battle tank	Nov 2011	Jan 2016	\$65,833,333
FINLAND	Weapon station	Aug 2012	Dec 2012	\$1,700,000
	Tactical vehicle	Jun 2012	Dec 2012	\$157,000,000
FRANCE	RCW station	Mar 2012	Mar 2013	\$28,500,000
	Truck	Aug 2012	Dec 2014	\$71,333,333
GERMANY	Truck	Dec 2011	Dec 2013	\$5,500,000
INDIA	Repair and recovery vehicle	Jan 2012	Dec 2014	\$91,666,667

Table 5. (continued)

INDONESIA	Infantry fighting vehicle	May 2012	Dec 2013	\$57,000,000
	Self-propelled gun	Jul 2012	Dec 2014	\$56,666,667
IRAQ ¹⁸¹	Repair and recovery vehicle	Oct 2012	Jun 2014	\$10,600,000
KAZAKHSTAN	Wheeled armoured personnel carrier	May 2012	Dec 2013	\$75,000,000
NORWAY	Fire control system	Jun 2012	Dec 2014	\$5,133,333
	Infantry fighting vehicle	Apr 2012	Dec 2018	\$238,571,429
POLAND	Wheeled armoured personnel carrier	Aug 2012	Dec 2018	\$90,000,000
SPAIN	Mortar	Nov 2011	Dec 2013	\$2,833,333
THAILAND	Main battle tank	Sep 2011	Dec 2013	\$66,666,667
U.S.A.	Robot	Jun 2012	Aug 2012	\$12,700,000
	Modernization of engine	Jun 2012	Nov 2013	\$55,500,000
	Reconnaissance Vehicle	Mar 2012	Dec 2013	\$35,850,000
	Gas turbine engine	Sep 2012	Oct 2015	\$27,500,000
VENEZUELA	Main battle tank	Feb 2012	Dec 2011	\$200,000,000
	Tactical vehicle	May 2012	Dec 2012	\$21,000,000

¹⁸¹ Defense Industry Daily, "Baby Come Back: Iraq is Buying Russian Weapons Again", 12.11.12, <http://www.defenseindustrydaily.com/Baby-Come-Back-Iraq-is-Buying-Russian-Weapons-Again-07571/>, retrieved on 12 December 2012.

Source: Army Guide, “Rosoboronexport State Corporation - All Contracts”, <http://www.army-guide.com/eng/contracts.php>, retrieved on 20 December 2012.

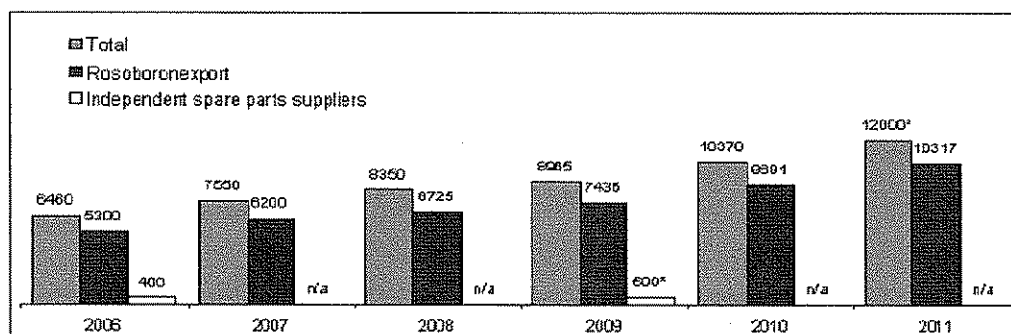
In the context of product, service and technology supply to aforementioned countries, Rosoboronexport conducts cooperation with IRKUT Corporation, Kazan Helicopters, Kurganmashzavod, Mil Helicopter, Russian Helicopters, Thales, Ulan-Ude Aviation Plant, and USC.¹⁸²

4.4 Russian Weapons as an Element of Foreign Policy

Although arms are the fastest-spreading economic asset, political factors act primary role in arms transfers. Some of the most remarkable political factors are; establishment and strengthening of alliances, protecting regional power balances, ensuring spread of ideologies, establishment of military bases in customer countries, non-proliferation of nuclear arms, controlling strategic natural resources and Military cooperation’s lead to cooperation in other areas.¹⁸³ It could be said that all of these factors are admissible for Russia’s arms export contracts with other countries. These factors are realized effectively through the medium of Rosoboronexport. As seen in the figures below; in the framework of these factors almost all of Russia’s weapons sales under export contracts are realized by Rosoboronexport. Although the share of Russia’s arms exports is small in total exports, today, Russia is the world’s second largest arms exporter after the United States. (See Figure 8 and Figure 9)

¹⁸² Guide to Military Equipment and Civil Aviation, Corporations, “Detail Report Information for Rosoboronexport”, <http://www.deagel.com/equipment/r3e000000171.htm>, retrieved on 21 November 2012.

¹⁸³ Murat Dinç, “Uluslararası Savunma Pazarındaki Rekabetin Temel Unsurları ve Türkiye’de Yerleşik Savunma Sistemleri Üreticilerinin Uluslararası Savunma Pazarındaki Rekabet Güçleri”, *Undersecretary of Defence Industry, Unpublished Master Thesis*, Ankara, 1995, s. 7.

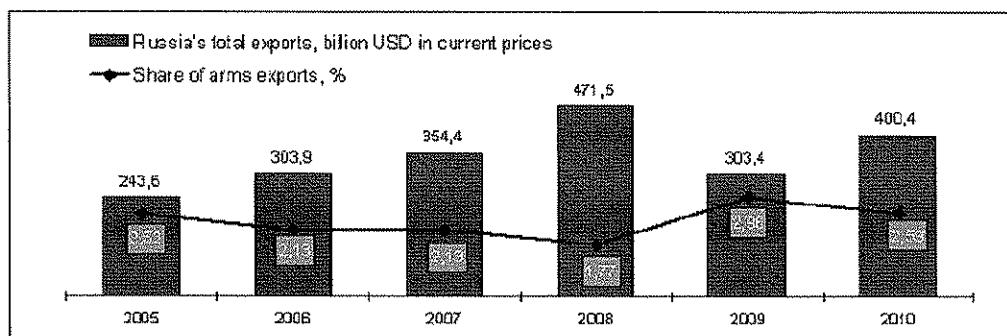


	2006	2007	2008	2009	2010	2011
Total	6,460	7,550	8,350	8,965	10,370	12,000*
Rosoboronexport	5,300	6,200	6,725	7,436	8,691	10,317
Independent spare parts suppliers	400	n/a	n/a	500*	n/a	n/a

Figure 8. Russian Arms Deliveries under Export Contracts (Million USD in current prices)

Source: CAST (The Center for the Analysis of Strategies and Technologies), "Russian Defense Industry and Arms Trade: Facts and Figures", p.3. http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 20 December 2012.

* CAST Estimates.



	2005	2006	2007	2008	2009	2010
Russia's total exports, billion USD in current prices	243.6	303.9	354.4	471.6	303.4	400.4
Share of arms exports, %	2.52	2.13	2.13	1.77	2.96	2.59

Figure 9. Russia's Total Exports and Share of Arms Exports

Source: CAST (The Center for the Analysis of Strategies and Technologies), "Russian Defense Industry and Arms Trade: Facts and Figures", p.8. http://www.cast.ru/files/book/all-stats_eng_14_02_2012.pdf, retrieved on 20 December 2012.

During the cold war era, customer countries developed their relations only with one or several countries within a pole due to their economic, strategic, military and international benefits or ethnic and historical ties. Although polarization has ended after the cold war era, most of the countries that are dependent on acquisition from one-source in order to ensure logistical support for the equipment, which they already acquired, and due to their tendencies and experiences continue to provide their needs from same sources.¹⁸⁴ In other words, military cooperation takes the lead for long-term relations. During the cold war era, the USSR and the US utilized arms transfers and military aids as their foreign and security policies' tools in order to get the edge in their political and ideological competition.

Today, military cooperation is again being used as a foreign policy tool and it creates a win-win situation between the sides. For instance, Russia exports arms to Myanmar in return to petroleum privileges; and to Indonesia in return to export credits privileges.¹⁸⁵

Advanced technological knowledge and experience in defense industry help countries to be effective in foreign policy as well as the knowledge and experience contribute countries in military area. For instance, Rosoboronexport expands cooperation areas with most of the countries, to which it exports arms, by providing technical aid for defense infrastructure production.¹⁸⁶ This cooperation's potential financial gains act a remarkable role in increasing Moscow's research-development budget. One of the other considerable benefits of arms export is that Russia makes agreements also in energy sector with the countries that have arms sale agreements. Increase in usage of Russian arms systems in the world also connotes increase in Russia's political influence over the global arena.¹⁸⁷

In late 1990s, production for export comprises most of Russia's arms production; and export was the biggest financial generator for technological progress. Besides producing

¹⁸⁴ Ibid.

¹⁸⁵ Ibid.

¹⁸⁶ Cameron Scott Mitchell, "Phoenix from the Ashes? Russia's Defense Industrial Complex and Its Arms Exports", *The Australian National University E-Press*, Australia, 2009, p. 54.

¹⁸⁷ Ibid.

advanced arms systems, giving importance to modernization paved the way to cooperate with foreign companies; by means of this, Russia acquired new connections in several fields, not only military area, and empowered its international activism.¹⁸⁸ For instance; with arms sales Russia established close relations with Iran; afterwards they signed Cooperation Agreement and advanced relations to the level of 'Strategic Cooperation'. As another remarkable example, arms sale agreements with Venezuela demonstrate Russia's response to the United States' presence in Russia's backyard.¹⁸⁹ These examples indicate Russia's success in using military cooperation in foreign policy effectively.¹⁹⁰

In 2000s, especially in relation to NATO's enlargement, Russia concentrated on gaining strategic advantage and foreign capital by arms sale in the third world.¹⁹¹ After Vladimir Putin took the office of presidency, Russia has begun to follow an independent foreign policy, and utilize some tools more influentially in its foreign policy. During his presidency, Putin's one of the most important steps has been founding a central control mechanism over arms trade.¹⁹² According to Putin's statement, on 2nd of July 2012, in the first half of the year 2012, Russia gained more than \$6.5 billion from arms export; and this means %14 increase from the same period of 2011. Analysts evaluate this situation as possibility to break the record of last year's \$13.2 billion in total arms sale.¹⁹³

Russia's superior power in arms trade also strengthens its relations with the customer countries in other areas. For instance, Russia's positively progressing relations in military

¹⁸⁸ SIPRI Yearbook 2003, "Defence Industrial Policies: Russia, Military Spending and Armaments 2002", Oxford University Press, Stockholm, 2003, p.399.

¹⁸⁹ "Russia's Backyard" is a term that is being used for the former Soviet Union countries.

¹⁹⁰ Erel Tellal, "Zümrüdüanka: Rusya Federasyonu'nun Dış Politikası", *Ankara University Journal of The Faculty of Political Sciences*, Ankara, Volume 65, Number 3, 2010, p.229.

¹⁹¹ Mesut Hakkı Caşın, "Ortadoğu'da Balistik Füze Tehditi ve Modern Savunma Stratejileri", *Savunma Sanayindeki Teknolojik Gelişmeler Sempozyumu Bildiriler Kitabı, Military Academy Publications*, Ankara, Issue 2, 1997, p.66.

¹⁹² Sina Kısacık, "2000'li Yıllarda Hidrokarbon ve Silah Satışları Temelinde Gelişen Rus Ekonomisi", *International Policy Academy*, 31 July 2012, <http://politikaakademisi.org/?p=2054>, retrieved on 21 November 2012.

¹⁹³ Ibid.

cooperation with China, one of the biggest customers of Rosoboronexport, lead to sign approximately 20 cooperation agreements the fields of energy, mining, machinery, technology, and agriculture; and these agreements' economic reflection exceeds \$7 billion. Similarly, besides military area, in political, economic, and cultural areas, partnership process is being realized with Russia's second biggest customer, India. Russia is one of the biggest arms suppliers of India. Arms trade between two sides that contributes the relations positively also develops two countries' strategic cooperation in global and regional formations.¹⁹⁴

In the context of relations with Iran, Russia's third biggest arms customer after China and India, Rosoboronexport's sales to Iran are contributing Iran's military capacity and ensuring Russia's remarkable gains financially. Both Iran and Syria markets are also politically important as Russia demonstrates common stance against the United States with these countries.¹⁹⁵ Besides arms trade, the most important dimension of relations with Syria is Tartus Naval Base. Since this base is Russia's only naval base in the Middle East, Russian-Syrian relations continues to gain momentum both in military and commercial areas.

As it is seen, above and beyond energy instrument, Russia also utilizes arms sales as an effective tool in its foreign policy. Developing relations with arms importer countries in various areas is an important factor that contributes Russia's global activism.

¹⁹⁴ Ibid.

¹⁹⁵ Kerim Has, "Rusya'nın Suriye Denklemindeki Yeri: İkili ve Bölgesel Çıkarlar", *International Strategic Research Center*, 6 September 2011, <http://www.usak.org.tr/haber.asp?id=989>, , retrieved on 12 December 2012.

CHAPTER 5

CONCLUSION

Aimed at analyzing the foreign policy structure of Russian Federation and one of its main instruments which are the state controlled companies, this thesis provides information and insight about Gazprom and Rosoboronexport. A comprehensive examination of RFP and how it's using these two above mentioned business giants are also of themes of this study. This thesis also aims to give a compact and well-coordinated data about both Gazprom and Rosoboronexport by giving place to several key figures, tables and maps which are essential for a good understanding of the topic. Handling Russia and RFP objectively, this study fills a gap in contemporary Russian studies about state controlled companies. The thesis has sought to test the hypothesis that Russian Foreign Policy since Putin's rise to power has not been formulated and implemented by the conventional Foreign Policy establishment but by the non conventional actors such as Gazprom and Rosoboronexport due to the increasing importance of energy and arms sales in Russian Foreign Policy.

The thesis consists of five chapters. In the Introduction chapter, we have presented the Scope and Objective of the thesis and gave place to main scholars and authors that we referred under the sub title of Literature Review. Then, we pointed out the main argument of the thesis, which can be articulated as the Russian Foreign Policy is based on certain elements and that the state owned enterprises play an indispensable role in pursuing this policy. We have concluded the Introduction chapter by explaining the research method and the organization of the thesis.

In the second chapter of the thesis, which is titled as Russian Foreign Policy, we mentioned about the general principles of the RFP and we handled the issue of the foreign policy mechanism of Russian Federation. Then we analyzed the post-Soviet era foreign policy structure in Russia. We divided this term into two decades: 1990-2000 and 2000-2010 and we pointed out the differences between Yeltsin's term and Putin's term. Finally in this chapter,

we defined the concept of the state controlled company as the basis of the following two chapters.

The first main chapter of the thesis is the third chapter in which we dug into Gazprom, state gas monopoly. This section consists of four sub titles. In the first three sections we touched upon the historical background of the company and its rise in the 2000s. In the fourth section we examined Gazprom's effects on Russian Foreign Policy and the “so-called” pipeline diplomacy.

The fourth chapter is about Russian arms trade with other countries and how it affects the foreign policy making. Rosoboronexport's early years, the rise and the current situation are handled in this chapter. Under the final sub title, Russian weapons as a foreign policy instrument, we put Rosoboronexport's clients and latest contracts forth. Finally in this fifth chapter, we first gave place to a brief summary of the thesis. We will now underline some of the outcomes of the study and then conclude.

Given the current situation of Gazprom and Rosoboronexport, both companies are progressing very quickly. The basis of the rapid growth is both companies have tangible and realistic targets and they do not compromise in reaching these goals. With regards to Russian economy's two biggest contributor industries - Rosoboronexport and Gazprom, are not only effecting Russia but also have an impact on global politics. It can be argued that in the near future, these business giants will hold a great power in RFP.

One of the main outcomes of this study is determining the significance of energy sales in RFP through Gazprom. However it is essential to underline the fact that Russian economy is getting more and more dependent on energy. It could be said that Russia's high level of confidence in international area comes from being a global energy player. Because of the foreign policy of Soviet Union formed the basis of security during the Cold War, energy issue was not on the agenda. In the period after the Cold War, security issue was the most important part of foreign policy. In addition to this issue, foreign policy is determined by the development of domestic politics. But after the Cold War the need for energy had increased. The foreign policy of Russian Federation directed into two areas by Putin : Energy and security.

Russian Federation has the world's largest natural gas reserves, the second largest coal reserves and the eighth largest oil reserves. Besides this, at the same time Russian Federation is the world's largest gas exporter, the second largest oil exporter and the third largest energy consumer.¹⁹⁶ On these grounds it looks like a requirement for Russian Federation to base the foreign policy on energy. Russian Federation is using the advantage of this situation. Especially by means of Gazprom, Russian Federation puts political and economic pressure on gas-dependent states. It seems that the issue of energy security will be on Gazprom's and Russia's agenda in the coming years.

In addition to the energy issue Putin has tried to develop Russian Federation's role in world politics by means of military power. In the changing conditions of world politics, the importance of military power and arms industry has increased. In this context, Russian Federation gave priority to defense industry sector which is a strategically important and a significant player in the global arms market. Russia has managed to keep its strong position in the sector. Because of this point of view, Russia Federation has characterized as realistic and pragmatic by other countries. But actually this understanding of Russian Federation shows a liberal point of view. It is true that Russia utilizes arms sales as an effective tool in its foreign policy but Russia is doing that through its state controlled companies, not directly itself. It can be said that the liberal understanding of Russian Federation existing at this point.

It is clear that military power is still relevant in today's world and all of the states in the world are aware of this. Because of that they have placed the defense sector as the first in their foreign policy. Russian Federation is also doing that. In summary this thesis analyzes the formation and implementation of Russian Foreign Policy. The research in this thesis support the main argument of this thesis that Russian Foreign Policy since Putin's rise to power has not been formulated and implemented by the conventional Foreign Policy establishment but by the non conventional actors such as Gazprom and Rosoboronexport due to the increasing importance of energy and arms sales in Russian Foreign Policy.

¹⁹⁶ For more information on the issue: Murat Doğan, "SSCB ve Rusya Federasyonu Dış Politikasında Enerji ve Güvenlik", *Academic Perspective*, Online Social Sciences Journal, 28.08.2012, <http://akademikperspektif.com/2012/08/28/sscb-ve-rusya-federasyonu-dis-politikasinda-enerji-ve-guvenlik/>, retrieved on 28.01.2013.

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APPENDIX

TEZ FOTOKOPİSİ İZİN FORMU

ENSTİTÜ

Fen Bilimleri Enstitüsü	<input type="checkbox"/>
Sosyal Bilimler Enstitüsü	<input checked="" type="checkbox"/>
Uygulamalı Matematik Enstitüsü	<input type="checkbox"/>
Enformatik Enstitüsü	<input type="checkbox"/>
Deniz Bilimleri Enstitüsü	<input type="checkbox"/>

YAZARIN

Soyadı : Tüylüoğlu
Adı : Mazhar Yasin
Bölümü : Avrasya Çalışmaları

TEZİN ADI (İngilizce) : The Role Of State Controlled Companies In Russian Foreign Policy: Cases Of Gazprom And Rosoboronexport

TEZİN TÜRÜ : Yüksek Lisans ☒ Doktora ☐

1. Tezimin tamamından kaynak gösterilmek şartıyla fotokopi alınabilir. ☒
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