

THE PROSPECTIVE DEVELOPMENT OF FINANCIAL MARKETS AND THE MARKETS OF ENERGY CARRIERS WITHIN THE POST-SOVIET SPACE

Sergey Grinyaev

The paper considers the author's views on the situation established in financial and commodity markets, mostly energy markets of the CIS countries. It is noted that the current situation is characterized by high dynamics and general negative bias with regard to most integrative processes within CIS. It is shown that under the growing instability of the world financial system, the US and their allies exert ever greater efforts in order to retain the status quo of their own domination. It is also shown that Russia, while trying to rehabilitate its clout all over CIS, is also striving to use not only the lever of energy policies but also methods of economic persuasion of partners in the need for mutual integration of economies.

A characteristic feature of the current moment is a radical and systematic reshaping of the CIS geopolitical and geo-economic space. On the one hand, the post-Soviet space continues to be pulled apart into all types of organizations (GUAM, EU, NATO) with no participation of Russia, on the other hand, Russia itself, posing on a new stage of historical development, is vigorously reviewing its relationships with the CIS countries, primarily in the domain of energy policies.

The favorable markets for energy carriers as well as a number of measures on rehabilitating the Russian economy enable a new stage to be seen in the development of Russia. This stage is aimed at a number of crucial objectives related to updating the old and generating the new infrastructural projects substantially improving the quality of life in Russia, a measure that is to secure the positioning of Russia as an autonomous center of power in the 21st century.

Meanwhile, the current condition of the world trade and the world financial market is a serious concern not only for the Russian but also for the foreign economists. On the one hand, interaction with the overseas partners has within the last years shown that in the West, Russia and its capital are not needed. Moreover, according to our "partners", the Russian capital poses a serious threat to the

economy of the Western countries. It is a logical development that both European countries and the US are vigorously developing mechanisms for blocking the foreign investments into the manufacturing industries. The acquisition by the Russian banks VTB of only 5 percent of EADS (the European Aerospace Holding) has raised an apprehension by the European Union that the state-owned multi-billion-dollar investment funds in Russia, China and Near-Eastern countries will soon buy up the largest European companies. Peter Mandelson, the EC Trade Commissioner, told the paper *Handelsblatt* that the European Commission suggested restoring the system of the so-called “golden stock.” The EU will be able to block deals in strategic domains, protecting a specific company from a foreign merger.¹ meanwhile, a permanent discourse is going on about the market economy. As a common joke among foreign economists goes: “We don’t worry while the Russians are buying only football clubs and yachts from us.”

On the other hand, the objective of the assertion of Russia as an autonomous center of power can be resolved only on condition of a distinct positioning of the country in the world economy. For the time being, Russia can build up favorable relationships only in one sphere – trading in energy carriers, which is quite sufficient in order to begin a complex work of many years.

In the meantime, since the very initial steps of the new geo-economics project Russia encountered a number of super-complicated tasks, to be resolved within a very unstable and partially hostile environment, the heat of this confrontation being the higher, the more stable Russia’s position is in the world market.

1. The battle for dollar supremacy is just starting

Within the last few years against the ever increasing external US debt, allegedly nearing \$50 trillion², there is a significant activation of some processes in world economy aimed at redistributing the spheres of influence, as well as energy, raw materials and financial markets.

Most typically these processes are developed on the world equity market where every 8-9 months critical developments take place resulting in substantial reduction of equity indexes. Meanwhile, the most damages from crises are incurred by the developing markets: the Russian, Chinese, and Brazilian. Experts think that the trend for the near future is that the negative factors are on the increase. Those factors are very likely to affect the financial system and the equity

¹ <http://www.rbcdaily.ru/print.shtml?2007/07/24/focus/284364>

<http://www.gzt.ru/business/2007/07/20/221745.html>

² <http://www.financialsense.com/fsu/editorials/martenson/2006/1217.html>

fund of Russia, the country hosting large raw-material and energy resources and striving for an independent policy in their use. Trends have already been indicated on regrouping the world banking system, reducing the capitalization of Russian oil and gas companies, and the US-favoring revisions of the International agreements.

Moreover, given the significance of energy market control, a number of Western countries, primarily US, possessing no sufficient natural reserves, have opted to establish their own oversight over the world energy market: taken under control were both the generation and infrastructure of the energy raw materials market. The resulting situation in world economy today is that all market infrastructures, from pricing the energy carriers to their delivery and to legal support is controlled by US, while the stock-supplying countries are eliminated from the process of pricing their own commodities. In some cases market infrastructure is used to achieve foreign-policy objectives.

In current history there are well-known facts of using the so-called “oil weapon,” when the complicity of US administration and the Near-Eastern oil-producing countries resulted in arbitrary oil pricing, thus triggering global economic crises. A vivid example of applying economic pressure amongst other things is collapse of the Soviet Union and the Socialist-block countries.

It has become known that in the US Congress a bill¹ was introduced mandating all companies (not only American), cooperating with the rogue countries like Iran and China, to undergo delisting on American stock exchange, automatically resulting in the foreign investors selling their shares of joint stocks of those companies as well as their subsequent rapid financial degradation. These policies of the American authorities result in a dictatorial behavior on their part with regard to foreign companies, which is clearly a threat to the national interests of any country subject to the measures of this kind.

In the same context, as far back as April 6 of the current year, the media informed that the British FSA (Financial Services Authority) intended to tighten the roles of IPO (Initial Public Offering) for the foreign companies². FSA points out those requirements to foreign companies represented at London Stock Exchange (LSE) being too liberal, the investor risks are increased. The FSA statements deal for the most part with Russian companies being responsible for the major share of LSE allocations. Experts think that it may result in some Russian issuers abstaining from allocations on Western sites.

¹ <http://www.kommersant.ru/doc.aspx?DocsID=766349>

² <http://www.kommersant.ru/doc.aspx?DocsID=756749>

2. The Asian Vector

The situation at the Asian (Eurasian) markets of energy carriers in many ways is a determining factor in the situational development. The summary of all hydrocarbons produced in Asia shows that the 21st century will see this area as the largest producer and user of the hydrocarbon raw materials. In the meantime, nearly all oil and gas pipelines today are going westward. In this situation, as noted by analysts, it is becoming evident that today's organization of the global market is extremely irrational.

Discovering large deposits of hydrocarbons in the Caspian region and their subsequent production has transformed the regional countries into an arena for confrontation of the leading world powers, striving after the collapse of the USSR to get enclosed into the promising hydrocarbon flows. In this struggle stakes are high: The Caspian region in the near-term outlook is expected to become the second largest hydrocarbon exporter after the Persian Gulf¹.

With regard to the emerging tendency of regional development, Iran today is vigorously organizing its own oil and gas stock exchange with all computing done in Euro².

Another initiative showing the growth of tension on the world energy market was the idea of establishing the so-called "gas OPEC." On the 9th of April there was a conference in Doha, a regular meeting of the gas exporting countries (GECF) which initiated the establishment of the "gas" OPEC. The idea of creating this organization belongs to Iran³. Many states found this proposition interesting, while the user countries on the contrary showed concern. The gas users are concerned that the gas OPEC may become a monopoly and will seize a commanding position. In particular, the House of Representatives stated that the association of gas exporters is a global company of racket and extortion⁴.

As noted by "Vremia Novosti"⁵, the hysteria around creating the gas OPEC had been pumping up for the whole first quarter of 2007. Leaders and high-ranking officials of the potential partaker countries of this association (Russia, Iran, Qatar, Algiers) had shown interest to this idea discussing it at different levels. Brussels and Washington meanwhile accumulated nervous tension, although objectively not a single producer country is interested in assuming commitments within the framework of this cartel. The system of gas sales based upon

¹ http://www.expert.ru/printissues/expert/2007/19/vizit_putina_v_srednyuyu_aziyu

² <http://news.ntv.ru/83976>

³ <http://eco.news.specialsoft.ru/readd.php>

⁴ <http://lenta.ru/news/2007/04/04/opec>

⁵ <http://www.vremya.ru/2007/76/8/177397.html>

long-time agreements and endorsed prior to project implementation, has no room for rigging prices. At the same time their high level is determined by a growing demand for gas with depleted sources of production and the need to invest in developing the new deposits and establishing the transport infrastructure.

3. Stock Markets – under Control!

Besides the hardened struggle on the inputs market, there is an increased competition for domination on the financial markets.

Thus, one of the brightest events of the year is the situation around the takeover of the European exchange EURONEXT by the American stock exchange NYSE¹. It is to be noted that the takeover has taken place despite the European leaders (Germany, France, Italy, et al.) having spoken against this merger: pressure from US has been overwhelming.

In the last few months there was a conspicuous stir up in the activities of foreign capital penetrating the Russian stock markets and the joint capital of the Russian stock exchange.

In particular, there is an ongoing project of creating the International Exchange “St. Petersburg” with the participation of the Swedish group of OMX companies. Characteristic for this project is that an OMX company itself completes negotiations on a possible merger with the American exchange NASDAQ on the terms 72% (NASDAQ)/28%(OMX), which will result in the emergence of the second (after NYSE-EURONEX) transnational stock exchange under the influence of US, and as a whole will place under US control up to 70 percent of the world stock market.

The OMX group, already controlling Baltic-state Post-Soviet exchanges, is also conducting negotiations on acquiring another array of stock exchanges in CIS. A speedy completion of the talks has been announced on purchasing the Yerevan Stock Exchange²; as well as on a possible advent of the group to Ukraine³ and Kazakhstan⁴.

It is also to be noted that an agency of the German firm Deutsche Boerse was initiated in Moscow in early June, 2007.

¹ <http://lenta.ru/news/2006/05/22/nyse>

http://www.expert.ru/printissues/expert/2006/21/pervaya_mirovaya_birzha

² <http://www.yerevan.ru/news/?task=detailed&id=4810>

³ <http://gazeta.delo.ua/?date=2006-07-25&id=8708>

⁴ http://www.kazpravda.kz/index.php?uin=1151984397&chapter=1180641821&act=archive_date&day=1&month=6&year=2007

4. The Kazakh Initiative

Since late 2005, with an immediate participation of US, operations are underway on creating a regional financial center in Almaty, Kazakhstan. J. Wolfenson, ex-president of the World Bank was appointed an outside adviser to the President of the Republic of Kazakhstan on problems of developing the Regional Financial Center in Almaty. He has taken immediate part in elaborating the strategy of development as well as in analyzing the work of the center-employed consultants¹.

Experts think that the decision of the Kazakhstan government on establishing RFCA could have been caused by recognizing the unfavorable trends of the situational development in Central Asia and aimed at guiding the prospective development of those trends. In particular, in the years of their military presence in the region (since September 2), and following the events in the Uzbek Andijan and Kyrgyzstan, the US admitted the inefficiency of the strong-arm policy in the region. Moreover, within the last years it had shown a sharp increase in the Chinese economic influence. During the same years, Russia had been gradually wrapping up its presence, redirecting itself towards an interaction with Europe and China.

Under those conditions Kazakhstan confronted an option: either to get into dependence upon the growing might of China, which does not quite get along with the external economic policies of Kazakhstan, or to provide conditions for the advent and firm establishment of the foreign capital, the western in the first place. That was the way chosen by Kazakhstan.

Experts think that the tax benefits expected in RFCA will result in a number of Russian companies, mostly of medium and small capitalization, trading their stocks on the RFCA site. Besides, the Russian governmental initiative on introducing the Russian Depositary Receipts with the inception of RFSA can also remain unclaimed, since the CIS stocks will be placed on the RFSA exchange rather than on the Russian Exchange.

By the estimation of the Kazakh experts, Almaty, as center of investment, is advantageous not only in Central Asia, but in the whole of CIS, its principal competitor being Moscow and Russia at large.

Guam, another Instrument in the Confrontation with Russia for the Caspian Resources.

A particularly tough confrontation was between Russia, claiming to be the main regional power, and the pair EC – US, striving to establish the hydrocarbons supply routs alternative to those advocated by Russia, from the

¹ http://www.kazpravda.kz/index.php?uin=1152853640&act=archive_date&day=4&month=11&year=2006

Caspian region to Europe.

A number of efforts have been made in this connection to use some regional organizations as an instrument to counter the promotion of the Russian business. In particular, serious hopes for a successful counteraction to Russia are being nourished with regard to GUAM.

As noted by I. Muradyan¹, the US policies in the Caucasian-Caspian region have been formed fast enough. Some definitions were made of the American policies in the region still in the early 1990s, those policies, however, having been characterized as inefficient and inadequate for quite a long time.

It is also noted by the same author that the Caucasian-Caspian region, besides the objective of production and supply of oil to the world markets, poses a parallel task to US and GB: to prevent the use of the mentioned energy resources by Iran and Russia, and above all to rule out the control by those powers over energy communications. Thus, the interest by US to the energy resources of the region will be materialized regardless of their significance for the world energy balance.

That was duly demonstrated on May 25 in Yalta, when the meeting of CIS Prime Ministers ended by the 6 participator countries (Russia, Kazakhstan, Belarus, Kyrgyzstan, Armenia and Tajikistan) endorsing an agreement on forming a general electrical energy market of the states in CIS, while a number of countries, including all the four GUAM countries (Azerbaijan, Georgia, Moldova and Ukraine) did not join the Agreement.

The urge to stir up the work of the organization was seen during its latest summit last summer in Baku. Although its results do not promise any breakthroughs in the process of developing this organization, while the practical results of the meeting from the point of view of specific agreements and promoting the internal integration projects are evaluated by experts as minimal, the attempt by the Americans during the summit “to put the Guamese on their feet” has failed one more time.

The meeting was summarized and signed as the Baku Declaration. The document titled “GUAM: merging the continents” is stating that the interests of the partaker countries remain coincidental. They will go on trying to build the integral economic space and jointly resolving the issues of their own security.

It is quite natural that a particular focus was made on energy cooperation, the oil pipeline Odessa – Brodi – Plotsk – Gdansk in particular. Another important issue was that Ilham Alyev, President of Azerbaijan, announced at the sum-

¹ http://www.noravank.am/file/article/241_ru.pdf

mit that his country would become a reliable energy partner to the GUAM states and Europe.

Moreover, on May 11 the Russian President made a six-day tour of Kazakhstan and Turkmenistan. The principal purpose of the visit was to dissuade Astana and Ashgabat from joining the Transcaspian gas pipeline. As noted by the journal "Expert," during the tour the Central Asian Presidents had asserted the priority of cooperating with Russia in the gas domain. The deepest curtsey was dropped by the Head of Kazakhstan Nursultan Nazarbayev stating that "Kazakhstan is absolutely committed to most of the stock, if not all, going through Russia. Moreover, Nazarbayev and Putin came to terms on expanding the transit oil pipeline from North-West Kazakhstan to Russia belonging to the Caspian Pipeline Consortium from today's 29m to 40m tons¹.

In this connection another attempt by Kiev and Warsaw to resuscitate the subject of the pipeline Odessa-Brodi-Gdansk proved to be unfeasible. With no Kazakh oil the trunk line will remain inoperative.

Moreover, Azerbaijan has certain deposits of energy resources, but those deposits are owned by a consortium of Western companies producing, transporting and marketing that oil on world markets. Therefore Azerbaijan does not yet need to build special political-economic relations with, e.g., Ukraine or Poland. Their proclaimed course to lay new routs bypassing Russia is in actual fact imitation energy diplomacy.

Earlier expert utterances suggested that the immediate purpose of the merger had been the relaxation of economic, mostly energy dependence of the relevant countries upon Russia, as well as developing the transit of energy carrier along the route Asia (Caspian sea) – the Caucasus – Europe circumventing Russia.

The strife to activate the rivalry with Russia in the region resulted in GUAM since its birth having received a substantial economic and political support from US, the GUAM objectives being coincidental with those of Washington.

Despite all efforts, however, GUAM is thus far operating as a forum. The entity lacks fresh ideas and capabilities in the claimed lines of cooperation. Since its reforming in 2006 no substantial changes have taken place. The economic dimension of the entity's activities is described by overseas experts as inefficient and mostly verbal. The organization remains a shapeless structure with good intentions and unclear prospects, with great ambitions but limited potential. In the emerging situation there are few who believe in the development of GUAM albeit by admitting new members. In particular, the plans being considered of ad-

¹ http://www.expert.ru/printissues/expert/2007/19/vizit_putina_v_srednyuyu_aziyu

mitting Rumania have caused protests by Moldova, adding no stability to the organization in toto.

Moreover, as suggested by the experts, Moldova does not regard the GUAM membership as a priority in its external policies. In the meantime the membership in this organization involves more problems than political or economic dividends, since most Guam resolutions are taken with no regard for the Moldovan interests because of the plot by Kiev and Tbilisi, in their turn following the guidance of Americans using these associations only as an instrument to counter Russia. It does not serve Kishinev's turn that Washington strives to involve Rumania into cooperating with GUAM. Neither the Moldavians are inclined to see the GUAM countries as strategic allies in resolving the problems of Trans-Dniester and their national security.

Another important fact is that the issue of collective and rapid admittance of the Guam countries to EU is not in view. Meanwhile, the Europeans would like to see this organization oriented to EU, rather than to US. Brussels intends to further build up relations with each member of GUAM individually, depending on their democratic achievements in this field. That is confirmed by the individual plans of EU for 2007 – 2010 to confer 92m € to Azerbaijan, 120m € to Georgia, 209m € to Moldova, 494m € to Ukraine. Thus shown was the confrontation in the region between EU and ES, opposing the consolidation of the Russian and Chinese positions in the regions on the one hand, and rivaling each other on the other.

Another important issue for the stability and security of the region is the capability of creating the regional peace-keeping forces. Attempts by M. Sahkashvili and V. Yushchenko to create within GUAM their own peace-keeping force are, according to experts, very doubtful and unviable.

A joint action within whatever association would require an accumulated experience and a serious practical training under UN, access to funding, and an international mandate. As an International structure, ODER (Organization for Democracy and Economic Development)-GUAM (Georgia, Ukraine, Azerbaijan, Moldova) is unqualified in settling the disputes on the CIS territory. Experts think that attempts at generating a system of regional security with no participation by Russia, on the principles of countering its influence in the region, are unrealistic. Still the only serious force remaining in the region is the Organization DKB.

Interestingly, the US is presently examining¹ the contingencies of the system of security in the Caspian basin. The negative experience of GUAM in pro-

¹ http://www.noravank.am/file/article/235_ru.pdf

viding security has confirmed the Americans' belief that besides consolidating the capabilities of their main partners in the region (according to I. Meridian, they are Kazakhstan and Azerbaijan), the continuous US military presence in the region is indispensable.

5. Estonia and the Global Project of the West on Controlling the Russian Resources

The events of May 2007 in Estonia have caused many minds to change their views upon the developing situation on Russia's Western borders.

Experts think that we look here at a multi-aspect game, wherein provocations of some and spontaneous reactions of others are just tools. On May 8, Gerhard Schroeder intended to coordinate the route of the North Stream gas pipeline, but Premier Andrus Ansip declined to meet Schroeder, as if for having condemned the monument relocation. According to Sergey Lopatnikov, a researcher at the Delaware University, closing Russia's exit to Europe had been the initial purpose of Ansip's government. That is also the subject of a publication by RBC Daily¹, followed by a great number of remarks and commentaries.

It is noted in the paper that Estonia today controls the mouth of the Gulf of Finland, 26 miles wide in the tightest place between Estonia and Finland. The Maritime Law affords these countries the right to divide the gulf in two, leaving practically no neutral waters, thus, Russia will have no room to draw the pipeline. In the 1990s, under pressure by Moscow, Helsinki and Tallinn left a six-mile zone in the center of the gulf, but following the conversations on NEGP (the North-European gas pipeline) Estonia returned to the previous position. Estonia and its supporters are trying to use the provocation with the monument "Bronze Soldier" to deprive Russia of access to the Baltic. Thus Russia loses not only NEGP but also ports on the Baltic, the Baltic fleet and Kaliningrad Region.

The authors of the paper rightly note that Moscow in the last years is being presented as an aggressor, with the West showing a positive reaction (as shown incidentally by the latest diplomatic row with Britain because of the non-extradition of A. Lugovoy by Russia). Reviewing the results of WWII and the preparation of the new Nuremberg against the Russians is going on for over 30 years. The Western Historiography more often depicts Russia not as the victor of fascism, but rather as a totalitarian empire sharing Europe with Hitler.

To be noted in this connection is also the fact that according to the risk analysis by Estonia's Ministry of Defense with regard to the construction of the

¹ <http://www.rbcdaily.ru/print.shtml?2007/05/10/focus/274940>

Russian-German underwater Nord stream on the Baltic, the pipeline will be an additional risk for Estonia's military security, as reported by the Rosbalt correspondent¹. The analysis had been prepared by the Intelligence Directory of Estonia's Ministry of Defense. According to this report, any installation on the sea bottom can be used for military purposes, like tracing the movements of vessels of for electronic intelligence.

However, demonization of Russia is only a tool, according to historians. As noted by Natalia Narochmitskaya, they say in the West the countries and populations appearing above the resources accidentally, as it were, cannot be regarded as the latter's hosts. The objective of the West is to include the resources of Russia into their global project, and everything that stands in their way makes them furious.

Conclusion

Analysis shows that despite the seeming disconnection of the mentioned multi-faceted events, they form an integral group with regard to their influence upon the energy policy of Russia.

As noted by experts², in the game around Russia and its interests, the first round ended in a draw: Russia managed to retain the leading position in the gas industry and to implement the project of the Caspian pipeline consortium, doing the transit of Kazakhstan oil through the Russian territory. The implementation of the large pipeline project Baku – Tbilisi – Jekhan (BTJ) was a great success for Europe and US, as well as their regional allies (Turkey, Georgia, Azerbaijan), which pipeline though remains underutilized. Another player emerging on the scene is China that managed to implement a project on oil pipeline construction from Kazakhstan and to start operations on a similar gas pipeline project.

As to the Russian policies in the region, it cannot but produce a negative response on the part of US trying to actively involve into counteraction with Russia both its satellites (GUAM) and the countries of EU.

The general negative background is sharpened by an increased tension around Iran, an urge to deploying the strategic weapon systems near the Russian borders, inciting the political crisis in Ukraine which is developing beyond the realm of elementary logic. Deterioration of relations is pending with the former Soviet Republics and the former partners of Russia on the Warsaw Treaty. It should be hereby understood that all those seemingly multi-faceted events are

¹ <http://www.rosbalt.ru/2007/06/28/300366.html>

² http://www.expert.ru/printissues/expert/2007/19/vizit_putina_v_srednyuyu_aziyu

very rigidly connected, threaded on the energy-related East-West confrontation.

It has also become clear that in the near future manifestation of negative factors will only be amplified. The primary possible target is the Russian financial system and the stock exchange.

Another factor designed to reduce the users' interest to the Russian energy projects may become an increased terrorist activity in the Caucasus as well as on areas adjacent to the Central Asian region. All the more, so that intelligence has noted increased amassing of weapons by terrorist formations in these areas.

To be also considered are organized nationalist manifestations with their subsequent highlighting by the independent foreign media, which is particularly convenient during a pre-election campaign in Russia, to be activated in September, at the time of holding the next summit "Russia - Kazakhstan - Turkmenistan".

On aggregate, it can be noted that Russia today, striving to revive its role and place in the world, has to overcome very tough resistance in all aspects of foreign policy, this resistance being on the increase as Russia is achieving its goals. It can be suggested that this economic war will continue if Russia will not for some reason renounce her claimed objectives.

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