

At the outset, let us assume that the geopolitical significance of Gazprom is understood. If this wasn't clear before it cut off Ukraine's gas supplies on January 1st this year, it is now. Nor is this significance confined to eastern Europe: western European countries all face become increasingly dependent on Gazprom gas. Vast amounts of money are at stake, as well as our energy security-of-supply, a major and proper new EU preoccupation.

So 'understanding Gazprom' is an important goal. Yet the naïvety with which many large, apparently worldly Western energy companies approach the matter can be startling – and the surprises and setbacks they encounter are severe, not to mention the demands on their cash. Just as Kremlinology was an important field of study in former years, so we must seek to become good *Gazpromologists*. We start here with an intriguing puzzle.

A cursory glance at recent press cuttings for Gazprom would lead one to marvel at its breadth of activities, engaging with foreign firms and governments on a remarkable range of fronts. In the months of June and July 2006 alone, it has announced projects, initiatives and interests in the following countries: Belarus, Belgium, Bolivia, Hungary, Iran, Ireland, Italy, India, Libya, the Netherlands, Norway, Pakistan, Serbia, Slovenia, South Korea, Turkey, Turkmenistan, the UK, the USA and Venezuela. On top of this, Gazprom has been balancing the delicate diplomatic consequences of its dramatic withholding of gas supplies from Ukraine; taking over assets from the dismembered oil company Yukos; playing a key role in the power-politics surrounding Russia's entry to the WTO; forcing its way into Russian projects of BP, Shell and ExxonMobil; toying with a half-dozen other western oil companies over their desire to participate in Russian energy projects; entering the global LNG business; issuing bonds - and declaring it will start trading Kyoto emissions credits from 2007.

If we extend our survey to cuttings for the rest of 2006, the list extends to Algeria, Austria, Bosnia, Brazil, Bulgaria, China, the Czech Republic, France, Germany, Greece, Japan, Kazakhstan, Kyrgyzstan, Morocco, Poland, Portugal, Romania, Singapore, Tajikistan, Uzbekistan and Vietnam – 41 countries in all, and the press may have missed some.

Some perspective is required, in order to convey the sheer scale of this activity, before we tackle the twin questions: how is this possible ? and what does it really mean ? Perhaps Western observers are inclined to assume, unreflectively, that Gazprom will be as well-equipped for global-scale commerce as any other company of its size, ignoring, firstly, its lack of track record in this regard, and secondly the fact that the above list of concurrent new activities would more than stretch even an ExxonMobil, a BP or a Shell. Perhaps the roster of Exxon's counterparties over the past few months would embrace as many countries. But that is from a basis of long-established operations in those countries, well over a century of continuous international trading, vast technical excellence, and essentially limitless cash. At any one time, though, its list of active strategic initiatives will rarely, if ever, have rivalled the list given above. Large, capable energy companies that are currently developing projects extending over even a quarter of this scope are showing clear signs of strategic over-stretch.

Clearly, in terms of natural gas resources, Gazprom has an unrivalled asset base and vast manpower, with its own housing, hospitals, holiday resorts, transport service, bakeries etc etc. Cash is not a huge problem, although rather less abundant than gas. But as regards managerial, technical and commercial resources in particular, Gazprom has hitherto been for the most part an inward-looking, FSU-focused entity with enormous domestic and financial preoccupations, dated technological capabilities and a command-economy management style. Certainly, it (and its predecessor SoyuzGazExport) has exported gas in large quantities to European customers for many years. But its 'diplomatic' reach was always limited: importers were summoned to Moscow periodically for rather stylized negotiations. Trips abroad for

Gazprom staff were strictly limited and carefully supervised, rather in the Soviet manner. There was no lack of basic commercial *nous* in the small group of export negotiators, but neither was this leading-edge financial expertise.

Accepting, then, that new outwards-directed commercial activity on the above scale is a phenomenon in need of explanation, what can be said? Of course, the sudden appearance of Gazprom looming so large on so many radar screens has not passed without comment. It is as if a country never before possessing an international airline has suddenly requested landing slots at every airport around the world. This naturally excites interest. But nowhere have I seen the question raised, let alone answered – where do they get all the aircraft, the crews, the ground staff?

To the extent that an explanation has anywhere been essayed, ‘conventional wisdom’ is that Gazprom has become no more and no less than a tool of Russian foreign policy, deploying the full outward-facing resources of the Russian state. There is merit in this observation: President Putin appointed Alexei Miller as Gazprom Chairman for this very purpose, and in the last three years Gazprom has become a limb of the multi-headed mega-agency that is the grouping of the Ministries for Foreign Affairs, Industry and Power Engineering, and Economic Development; the Federal Energy Agency; and the Russian Academy of Sciences. This certainly gives Gazprom access to greater executive resources.

Gazprom was always close to the political centre of post-Gorbachev Russia. Viktor Chernomyrdin (Prime Minister 1992-98) had his powerbase in Gazprom: the name of his party, “Our Home is Russia” is, in Russian, *Nash Dom, Rossiya*, but was widely called *Nash Dom, Gazprom*. How could it be otherwise, when Gazprom represents Russia’s greatest single source of hard currency?

This set-up is destined to continue: and it is widely reported the Gazprom is Putin’s chosen vehicle for extending his power once his present term of office comes to an end. However, this inevitable closeness to the organs and resources of state still does not answer all the questions. Fairly specialized knowledge is required to pursue gas-industry initiatives both in their technical and their commercial dimensions – unlikely to spring immediately from the Ministry of Foreign Affairs. Nor does Gazprom outsource the staffing of strategic initiatives like this to foreign banks or consultancies (although of course these types of firm are used in specialised tasks such as share flotations). Nor has it drawn on large numbers of senior foreign staff from their very new, very small start-up offices in countries like the UK. *Where do they get all the aircraft?*

Before offering our main thesis, we set out four other explanations, all of which contain insights that can add to our overall picture.

(a) *What Gazprom is doing is not substantive*

As we shall see, there is a sense in which this may sometimes be correct. Before we consider the deeper strategy behind the multi-pronged initiatives, we should certainly acknowledge the *pro forma* aspect of much of Gazprom’s formal dealings with the outside world. Partly out of curiosity, partly out of *politesse*, and partly “why not? it costs nothing”, Gazprom has always afforded to senior corporate visitors who show the appropriate degree of respect to their Moscow hosts a polite, even cordial reception, generally rounded off with the issue of a ‘protocol’, ‘framework agreement’ or ‘memorandum of understanding’. The author had one such protocol himself when in Moscow. It had no practical implications to speak of, but sounded grand, and was ingenuously, not to say naïvely considered by my Chief Executive to be of great significance. (My Gazprom contacts found his enthusiasm highly amusing.) However, much of what is covered by the list of recent Gazprom activities goes far beyond

the more-or-less passive observance of diplomatic niceties and toying with foreign executives. Genuinely creative effort is involved.

(b) *What Gazprom is doing doesn't require major resources*

In one important sense – cash - this is often absolutely correct. Gazprom has no intention of paying for anything it can get others to pay for, as foreign suitors will quickly discover. The bulk of any capital expenditure, as well as the technology, for any Gazprom joint-venture project is expected from the other partners. In this it is no different to many resource-rich, cash-poor players, of course: but it is the requirement for one particular resource, namely senior executive bandwidth to manage all the strategic initiatives, that is not mitigated by getting others to foot the bill.

(c) *Companies and countries everywhere are desperate to do business with Gazprom*

This is not in doubt: and it certainly makes life easier for Gazprom itself, particularly on the cash front, as indicated. Even companies whose hopes have been perennially thwarted, whose beliefs in 'exclusive relationships' with Gazprom have proved unfounded, whose willingness to part with cash has been extensively exploited, still come back for – and get – more of the same. Thus, Gazprom will frequently be knocking on open doors when it advances its initiative – and it will be offered a large number of other opportunities on a plate.

(d) *Initiatives are easier for Gazprom to mount, than for western companies*

Without getting into the fascinating area of what is meant by the Russian use of the term *initsiativ*, we should certainly recognise some major differences between Russian and western corporate practices, not least of which are to be found in the areas of corporate governance. In important regards, senior Russian management work under far fewer constraints than their western counterparts – little need to consider the views of investors, for example, or joint-venture partners: few formal budgetary, risk-management or accounting constraints; no need to consult the workforce; the ability to take a very long view: and this is all before one considers the basic Russian culture of top-down command. *Kto kovo ?*, 'who rules?', the most important introductory question for a Russian, and the answer is clear: those at the top.

Which is not to say there is no bureaucratic burden: but the leadership of Gazprom can certainly act unilaterally, and thus (in principle) swiftly, to a greater extent than can western companies. However, this still doesn't give us the deeper explanation we require.

For this, we turn to Russian military doctrine. Let us immediately acknowledge that military terminology is frequently bandied around in business contexts (e.g. the word 'strategy' itself), and almost as frequently this is unsatisfactory, mostly because the user has no detailed military understanding. Here, however, we are attempting to draw precise parallels rather than colour our account with martial metaphors.

In the spirit of academic enquiry we shall eschew use of lurid battlefield similes. We shall also avoid use of the word 'enemy': but we fear that it will not be altogether possible to avoid giving offence in some quarters with military turns of phrase, for which we apologise in advance.

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It is important to recognise the background to our advocacy of analysis from the military perspective. Firstly, Russian military doctrine has been fairly successful, by its own lights and on its home ground. So there is every reason why today's Russian energy strategists

should turn to it for inspiration. Secondly, it is inevitable that some of these very people are in fact well-acquainted with it already from their earlier incarnations in the Soviet era.

Thirdly, and often to the surprise of westerners, the evolution of Russian doctrine is a more open, collegiate, dialectic process than many would naturally associate with the closed society that has been Russia for very many years. Much debate takes place publicly, in accessible military journals (available to the west: again, no strategic surprises!). Russian strategists are well-accustomed to knocking ideas around, and thinking in creative, truly strategic ways – far more than will generally be found in western business circles, notwithstanding the weight of volumes on ‘business strategy’ published in the west. (You would not find a Russian falling for Michael Porter’s renowned but bizarre maxim that there are only three generic strategies in business. Simplistic ideas like this will not get us far in understanding Gazprom.)

We start our account by reminding ourselves of the topography of much of Russia – the steppes, ‘lone and level ... boundless and bare’. For two opposing armies in such terrain, everything about the field of conflict, including the disposition of the other side, is in plain view. Military doctrine for contests in such an arena will not, as western thinking has done, focus much on the relative defensive merits of the forward- and rear-slopes of hills, or the use of forests and valleys to conceal the line of march. It will rather confront a different problem: *how to gain advantage when all the pieces on the chess-board are plain for both sides to see?*

With this as the central theme, it becomes apparent why traditional Russian excellence at chess has been attributed to their emphasis on addressing this problem. Also, and of more immediate relevance to our concerns, we can quickly understand the classic Russian military emphasis on tactical surprise. Because everything is out in the open, *there is no such thing as strategic surprise: but there can, and must, be tactical surprise.*

Let us at once make a fundamental application of this idea. There can be no strategic surprise whatsoever in finding Russia making uncompromising geopolitical capital from her huge natural resource-base. But as to tactical surprise, we should expect plenty: from cutting off supplies to Ukraine on the day Russia took the Chairmanship of the G8 (no coincidence, this; and no embarrassment over the explicit use of power) - to who-knows-what, in future.

So now to our main account, for which we must outline key aspects of the summation of Russian military doctrine, as honed over very many years.

- Russians are very cognisant of the depth of their resources (classically, territory and manpower) and have been adroit at trading space (and indeed manpower) for time and long-term advantage. They think ‘in depth’, looking at the field of contest in ‘4-D’.
- The goal of an advance is to be able to project forces that can operate with maximum freedom in the other side’s rear areas.
- A large-scale advance is to be conducted with multiple axes along a very wide front or fronts, to be progressed simultaneously.
- When on the initiative, three factors are emphasised: speed, manoeuvre and firepower. Speed, or ‘tempo of operations’, is vital in order to ‘condition the battlefield’ in favour of the initiative, to force opponents to react, to show their hand, to make choices in conditions not of their choosing. Manoeuvre is used to maximise the effect of available resources by switching them quickly from sector to sector. Firepower is to be assembled by concentration and coordination of forces.

- Fortified positions are to be avoided. When ‘resistance’ is encountered on a particular axis, the opposition is to be ‘fixed’ (i.e. engaged so as to keep it localised and tied up) and by-passed, using other resources to sweep past it.
- In the same manner, units deployed in early phases of a campaign that become heavily engaged, are to be abandoned: it is better to press on with new forces.
- Coalitions are a source of weakness. Opposing joint ventures should be weakened by seeking to drive wedges between the partners. Conversely, reliance should not be placed on JVs, which should be terminated the moment their usefulness is past its peak.
- Disguising true intentions at the tactical level – ‘*maskirovka*’ – is a key device.

We firstly map some Gazprom actions of recent years onto this template. Firstly, and on the largest scale (though in slow motion relative to the pace of a military operation) are two great examples of fixing and by-passing resistance, and also of terminating reliance on others. For many years the bulk of Russian gas destined for Europe flowed through the Ukraine, in the *Bratsvo* and *Soyuz* (‘Brotherhood’ and ‘Union’) pipelines. Famously, not a little of it was ‘diverted’ to Ukrainian users without payment. Instead of seeking to force this issue at the point of opposition, and risk having its advance into European markets bogged down, Gazprom bypassed the Ukrainian route by building new pipelines to the north – the Yamal system, until only Italy of its major western customers would really suffer by a halt to supplying gas to / via Ukraine. This was spectacularly carried out in January of this year, despite the upset to Italy. (Note that ENI, Italy’s primary importer, still seeks large new joint business opportunities with Gazprom, which has clearly judged its counterparty well.)

Not content with the new Belarus / Poland export route, Gazprom now finds fault with Belarus and is outflanking eastern Europe altogether with an even more northerly, Baltic route, the NEGP, that in 2010 will make its landfall directly in western Europe. It will then have minimised to the full extent its dependency on ‘brotherhood’.

On the subject of terminating coalitions, and also abandoning the first echelon of units used in an advance, consider the case of Ruhrgas, for many years the only (west) German importer of Russian gas, which reckoned it had an unique and exclusive relationship with Gazprom in Germany. That is, until the day in 1993 it woke up to find Gazprom had created ‘Wingas’, a JV with German chemicals company BASF, to import Russian gas, build new pipelines and compete directly with Ruhrgas in its home market. Ten years later, Wingas itself formed a JV called HydroWingas with Norwegian company Norsk Hydro, for the purpose of selling gas in the UK. HydroWingas considered it had exclusivity in the UK as regards marketing gas on behalf of Gazprom or either of the other two shareholders. That was until 2005 when Gazprom announced it would be selling direct in the UK, in competition with the JV: its treatment of ‘partners’ is fairly unsentimental. (Again, however, E.ON, BASF and Norsk Hydro are all currently supplicants for involvement in new Gazprom projects.)

As for thinking in depth in space and time, note Gazprom’s clever use of inter-continental LNG ‘swaps’ to accelerate its entry to the LNG market in general, and the US domestic market in particular, years ahead of its ability to do this directly with Russian gas.

Now consider our original questions: how is Gazprom able to mount its current range of initiatives ? and what does it all really mean ? The latter question is perhaps the more readily answered, in light of the foregoing. *A large-scale advance is conducted with multiple axes along a very wide front, to be progressed simultaneously* - little comment is required. But we may further ask – what is the goal of the current initiative ? At least one answer is readily suggested by another of the precepts: *the goal of an advance is to be able to project forces*

that can operate with maximum freedom in the opposition's rear areas. For 'rear areas', we may firstly read 'downstream markets': in recent months Gazprom has made no secret of its desire to access the marketing end of the gas value-chain. Many of the items on the activity-list we gave relate to getting a head-start on direct marketing of gas within the domestic markets of the USA and Europe, as well as wholesale exports. Other readings of 'rear areas' could be 'sources of finance' and 'technology': Gazprom wishes to exploit these western resources for maximum gain to itself, and western companies seem ready to oblige.

How is it able to muster the resources to act on so many fronts at once ? We have already noted that this may be easier than imagined for Gazprom. We can now offer further illumination from the precepts of maximizing utilization of resources by manoeuvre; of bypassing resistance instead of delaying to fight it to a conclusion; and of *maskirovka*.

It is highly unlikely Gazprom intends, let alone is capable of, following through on all the initiatives listed in the near term. The doctrine of *maskirovka*, of masking tactical intentions, might lead us to anticipate that some of the axes of apparent advance are in fact feints from the start. It is in this sense that some of its 'activity' may not be substantive. Can we tell which it is pursuing 'for real' ? Firstly, we can surmise that Gazprom itself may not know definitively: it may be waiting until it has feedback in the forms of encountering successes and resistance. Although the Russian doctrine of advancing on multiple axes isn't specifically aimed at seeking out the line of least resistance, it can have that effect in practice. Secondly, a good indicator of real commitment is where it can be established that an initiative is costing Gazprom itself (as opposed to its willing partners) significant amounts of capital.

Thirdly, and more speculatively, Russian military doctrine encompasses the stratagem of a carefully-concealed master-stroke, prepared under the twin cloaks of hectic overt activity in multiple early engagements, and extreme secrecy as to the details of the intended decisive thrust. I have no evidence of the deployment of any such stroke – but then, I wouldn't ! My *guesses* would be that we have yet to see Gazprom's full hand as regards its dealings with China; restoring its 'gas hegemony' over the FSU; or in the electricity sector in general.

Conclusion

Russian military doctrine would encourage Gazprom to 'think in 4-D', to move swiftly, unexpectedly, and on multiple axes, to 'condition the battlefield' in its favour. To deliver tactical surprise, even when no strategic surprise is possible. To manoeuvre; to bypass resistance, to abandon units that have served their purpose, to avoid coalitions and drive wedges between opposing groupings. Can anyone doubt that, over the past year or so, it has been doing exactly these things ? Time taken to master this perspective may be well repaid.

Will Gazprom succeed ? It cannot fail to have a measure of success, given the gas resources it commands and the premium currently placed upon gas. But a fall in oil and gas prices could be a serious setback. "Russia is never as strong as she looks; Russia is never as weak as she looks", as Talleyrand is supposed to have said. The military perspective is just one of several that can be taken. But governments and companies can put themselves at unnecessary disadvantage if they ignore it.

There is much gas and money at stake. Some aspects of the relationship between buyer and seller are inevitably win-lose. The energy security of the western world is not comfortably left to amateur strategists. If we ignore the tenets of doctrinally coherent strategising, we should not complain when those who study and practise it diligently score heavily against us.