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The Rise of the Russian Oil Giant

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The days when the fate of the world economy seemed to turn on the decisions made several times a year by the Organization of Petroleum Exporting Countries are over.

And while OPEC's share of the world oil market has been declining steadily for years, its recent decline can be attributed primarily to the emergence of a single player -- Russia.

Now, Russia is fast approaching its 1980s production level. Hence, a greater degree of attention from the Middle Eastern oil producers to the developments inside the Russian energy sector is warranted. Ignorance in this realm could permanently alter (even marginalize) the region's role on the international energy stage.

Since the unexpected departure of President Yeltsin and the equally unexpected arrival of the ex-KGB foreman, Vladimir Putin, at the head of the Russian Federation, the Russian oil industry has boomed. For one reason, Russia's oil czars have largely transcended their robber-baron days and adopted new policies and organizations utilizing sophisticated encryption technology to 'out-manuever' while becoming less vulnerable to OPEC blackmail.

OPEC's traditional way of wielding influence -- waging price wars -- seems obsolete in this case. For one (and contrary to popular belief), the Russian government doesn't control the Russian oil industry, which is becoming increasingly hostile to any government meddling in corporate affairs, and increasingly uninterested in cutting oil production.

Second, the Russian oil industry is integrated into the international energy market enough to withstand a price war. Third, the Kremlin's dependence on high oil prices for its revenue is insignificant in comparison to the dependency of some OPEC countries, notably Saudi Arabia. Fourth, Russia has a much bigger domestic market to which it can sell oil than any OPEC competitor.

The Russian oil industry has already shown its Middle East competitors that it is no paper tiger. Its aggressive maneuvering to capture the lion's share of growth in demand in China, India, and even the U.S. illuminates its central position on the world energy stage.

Finally, it is unclear whether the Middle East can afford a price war at this point, given that a substantial drop in revenue could further stir anti-government emotions and even dislodge the ruling elite from power. This concern is particularly alive in Saudi Arabia, where the House of Saud is under mounting pressure from an increasingly poor and hostile public. Without the Saudis participating, any OPEC challenge to Russia will hardly be taken seriously in Moscow.

Slowly but surely, Russia, it seems, is winning the battle for energy supremacy. Scrapping OPEC, privatizing the energy industry in countries like Saudi Arabia, and enlarging Middle Eastern investments in the Russian energy market all seem like good beginnings.