Introduction

Energy is about flows. The availability of ever-larger quantities of energy has enabled civilisational progress, facilitating the transformation of rural communities into industrial and urban societies. Modernisation has gone hand in hand with the rise of energy networks: if rural communities are largely self-sufficient, relying on local energy sources, modern societies are dependent on increasingly complex production, transportation, and distribution networks that transcend local and national boundaries. During the twentieth century, it was oil that rose to become the elixir of modernity and mobility. Oil's strategic importance made it a key concern for governments around the world. Because oil reserves are unevenly distributed across the globe, securing sufficient supplies led to an unprecedented surge in trade and global connections as states and companies jockeyed for control over one of the world's most contested commodities.

This book is concerned with Russia's role in the global history of fossil fuels. As the world's largest storehouse for natural resources, Russia emerged not only as a major producer but also as one of the world's leading exporters of oil and other key commodities. Russia's transformation into a modern global power over the course of the twentieth century was connected to its ability to make use of its vast natural resources and produce energy in increasing quantities. While the development of Russia's energy industry went hand in hand with a profound socio-political and economic transformation, it also tells the story of international cooperation and competition, transnational exchanges, and transborder interdependencies. Through commodities' exports, Russia became part of global energy flows; at the same time, the growth of international trade impacted the views and decisions of Russian leaders, shaping the fabric of the country's foreign relations and, ultimately, the course of Russian history.

The precise form and intensity of Russia's outside economic engagement varied over time, but through all periods of its history, access to foreign capital, technology, and knowledge was key in harnessing the country's vast energy potential. Already Count Sergei Witte, finance

minister and head of government under Russia's last tsar, Nicholas II, recognised that without foreign assistance, the country's enormous natural riches could not be exploited to the full. In his posthumously published memoirs, he aptly summarised Russia's core dilemma regarding the development of natural resources:

> The economic wealth and consequently the political strength of a country depend upon three factors: natural resources, capital and labour …. With regard to natural resources, Russia is extremely rich, although she is unfavourably situated because of the rigorous climate in many of her sections. In capital, that is, accumulated values, she is poor, for the reason that the history of the country is a continuous chain of wars, not to speak of other reasons. Considering her population, she is rich in physical labour and also in intellectual resources, for the Russians are a gifted, sensible, and God-fearing people.[1]

The three categories mentioned by Witte – natural resources, financial capital, and human capital – have been central to the country's economic development since the late nineteenth century. In the Caucasus, the engagement of Western companies such as the Nobel brothers (Branobel), Rothschild, and Shell helped to build a modern industry for the extraction and processing of oil but also an extensive infrastructure for its transportation via pipelines, a fleet of tankers, and a railway network. After the October Revolution of 1917, the Bolsheviks nationalised industry, expelled foreign entrepreneurs and banned private property. Yet the leaders of the Russian Revolution knew that the success of their great socialist transformation project would depend to a large extent on the pace of growth in the production of raw materials and the development of a modern energy industry. Lenin's famous 1920 slogan, 'Communism is Soviet power plus electrification of the whole country',[2] expressed a central social-utopian idea of Bolshevik imagined modernity, calling for backward Russia, its societies, and its landscapes to be transformed along the rational lines demanded by technology and the natural sciences.[3] The world's first socialist state could only be successful and powerful if it had a sufficiently large energy base.

[1] *The Memoirs of Count Witte: Translated from the Original Russian Manuscript and Edited by Abraham Yarmolinsky*, Garden City, NY, and Toronto: Doubleday, Page, and Company, 1921, p. 72.

[2] Lenin probably mentioned this exact sentence for the first time during a speech at the Moscow Governorates Conference of the Russian Communist Party on 21 November 1920: V. I. Lenin, *Collected Works*, vol. 31, Moscow: Progress, 1966, pp. 408–26, here p. 419.

[3] Dietrich Beyrau, 'Das bolschewistische Projekt als Utopie und soziale Praxis', in Wolfgang Hardtwig (ed.), *Utopie und politische Herrschaft im Europa der Zwischenkriegszeit*, Munich: Oldenburg, 2003, pp. 13–40, especially section 6 'Technikgläubigkeit und Standardisierung', pp. 33–36.

The Soviet leaders by no means wanted their country to become too intertwined with the capitalist-dominated world economy and thus dependent on it. But Lenin and his comrades-in-arms recognised already in the early 1920s that Soviet Russia would not be able to modernise and catch up without the support of the advanced Western capitalist powers. Therefore, the Bolshevik leadership sought to revive international trade, which had virtually ceased during the Russian Civil War, to generate foreign currency for the purchase of much-needed technology and equipment. The Bolsheviks granted concessions to foreign firms to help restore Russia's industry and were keen to continue the technical-economic cooperation with European and American companies that had begun under the tsars.

Oil occupied a special place in these modernisation efforts. Not only was it increasingly important for Russia's economic development, but it was also a commodity in growing demand on world markets. Although the Bolsheviks condemned the imperialists' greed for oil, they were aware of the economic importance of 'black gold': Oil burned more efficiently than coal, had a wider range of uses, and, because it was lighter than coal, it was also easier and cheaper to transport. During the First World War, it also became clear how important petroleum-derived fuel was in a mechanised war with mobile troops. In the 1920s, the Soviet Union's export of petroleum was still far from generating the returns it would in the late Soviet period. But oil was in such high demand worldwide that it could be sold to states hostile to the Bolsheviks and their communist ideology. Cheap oil from the East was simply too attractive to be kept off the world market, and not even the boycott attempts by Western oil companies could ultimately prevent the international triumph of Soviet oil.

In the 1930s, misguided investment policies left the Soviet Union with too little oil to meet foreign demand in the face of rapidly growing domestic consumption. Following Nazi Germany's attack on the Soviet Union and Hitler's efforts to seize the Caucasian oil fields, Soviet oil production plummeted. To fuel its tanks and aircraft during the war against Nazi Germany, the Soviet Union was therefore forced to import large quantities of American fuel under the US Lend-Lease programme. The wartime experience heightened the Soviet leadership's awareness of the importance of oil, and it was during the war that Stalin ordered the rapid development of a new oil-producing region – the so-called Second Baku – in the Volga-Urals.

In the 1950s, the Soviet Union again began to export oil to Europe in increasing quantities. But it was not until the 1970s, after the large natural gas fields of Western Siberia started to come on stream, that

the country emerged as a major international energy power. Given the geographical remoteness and harsh climatic conditions, developing these new gas reserves posed a formidable technological and financial challenge. Indeed, much of Siberia's natural resources would probably have remained in the ground for several more decades had the Soviet Union not received billions of dollars in loans from Western European banking consortia to buy steel pipes and energy technology from abroad. Western companies entered into these big business deals because the Soviet Union held out the prospect of long-term supplies of raw materials in return.

The development of trade activities, encouraged by superpower détente in the late 1960s and early 1970s, was accompanied by the expansion of an ever-growing cross-border pipeline system. Notwithstanding US sanctions imposed under Reagan in 1981/1982, a first major export pipeline was completed in 1983, carrying gas from the enormous Urengoi field in northern Tyumen directly to West Germany and other Western European states. With the completion of this key energy infrastructure project, the Soviet Union became Europe's most important energy supplier – a position that Russia maintained and even expanded in the years following the break-up of the Soviet Union.

As the Soviet Union emerged as a major international energy power, it became increasingly dependent on global markets and prices. This meant that the country was exposed to price volatility and unpredictable fluctuations in supply and demand in the international energy market. With rising prices, trade with Western Europe appeared more and more attractive to the Soviet leadership. However, the foreign exchange earnings from the commodities business were used primarily to compensate for the inadequacies of a rigid and inefficient centrally planned economy. Moreover, despite the growing unsustainability of subsidised energy deliveries to the socialist states of Eastern Europe, Moscow continued to supply oil, gas, and other commodities to prop up the ailing economies of its communist allies. This often necessitated accepting inferior goods in exchange, all in the interest of maintaining the cohesion of the 'Eastern bloc'. But when world oil prices collapsed in the mid-1980s, the systemic deficiencies of the planned economy could no longer be compensated for in the short term. Indeed, the failings became so obvious that even Gorbachev's reform efforts came too late. By the end of the 1980s, the 'Eastern bloc' had virtually disintegrated, and the Soviet Union dissolved in 1991.

Unlike most of the extant literature, which focuses on how (Western) Europe became increasingly dependent on Soviet oil and gas imports, this book takes the Soviet perspective, asking why Moscow allowed

international trade to expand to the point that it created long-term structural dependencies on the Western capitalist market. The early Bolsheviks saw Russia's enormous natural wealth as a tool for overcoming economic backwardness and eventually catching up with – or even overtaking – the industrialised capitalist world. However, the Soviet leaders did not want their country to become a mere supplier of raw materials to the West. But the expansion of the country's fossil trade, combined with rising world oil prices from the late 1960s, meant that the Soviet economy became increasingly dependent on the rents generated by a single export commodity. Moreover, the construction of a vast transnational pipeline system – largely financed by Western loans and supplied with Western European steel pipes and technology – linked Soviet oil and gas fields in the Volga-Urals and Western Siberia to markets in Western and Eastern Europe, thus integrating the Soviet Union into an ever-expanding cross-border energy transportation network. The Soviet Union thus became increasingly part of an international economy, and this affected the views and decisions of the country's leaders.

Compared to the amount of research on Soviet foreign and security policy and international relations, economic issues have not figured prominently in the general Cold War historiography.[4] While Western historians produced a number of studies on energy and trade during the Cold War period, these remain somewhat separate from general historical accounts.[5] Meanwhile, the existing global histories of oil (such as Daniel Yergin's seminal book *The Prize*) tend not to give Soviet energy the prominence it deserves.[6] Many of the overviews of Russian history, including those that take a global perspective,[7] do not consider energy

[4] Cf. John Lewis Gaddis, *The Cold War: A New History*, New York: Penguin Press, 2005; Odd Arne Westad, *The Global Cold War*, Cambridge: Cambridge University Press, 2007.

[5] Representative of this literature is Thane Gustafson's 1989 book *Crisis Amid Plenty*, one of the best studies on Soviet energy policy published before the opening of Russian archives: Thane Gustafson, *Crisis Amid Plenty: The Politics of Soviet Energy under Brezhnev and Gorbachev*, Princeton, NJ: Princeton University Press, 1989. Other important studies on Soviet oil, gas, and international trade published during the Cold War include: Arthur Jay Klinghoffer, *The Soviet Union & International Oil Politics*, New York: Columbia University Press, 1977; Marshall I. Goldman, *The Enigma of Soviet Petroleum: Half-Full or Half-Empty?*, London: George Allen & Unwin, 1980.

[6] Yergin's book was first published in 1990. In the following, I rely on Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, New York: Free Press, 2009.

[7] For some time now, there has been a tendency in Eastern European studies to read Russian and Soviet history as part of a global history. However, economic aspects have so far been rather neglected in these studies. This also applies to the anthology edited by Martin Aust: Martin Aust (ed.), *Globalisierung imperial und sozialistisch: Russland und die Sowjetunion in der Globalgeschichte 1851–1991*, Globalgeschichte 13, Frankfurt am Main: Campus Verlag, 2013.

and foreign trade issues.[8] Even in works that explicitly adopt a structural approach to history writing, there is often no serious discussion of the importance of international trade to Soviet economic policy and foreign relations because, in the eyes of these authors, trade accounted for too small a share of Soviet GDP to be worthy of consideration.[9]

Only recently have studies appeared that emphasise economic issues and stress the role of fossil fuels in shaping international relations.[10] These rely on declassified Soviet documents and holdings in other national archives (see the works of Falk Flade, Per Högselius, Dunja Krempin, Jeronim Perović, Felix Rehschuh, and Mariia Slavkina).[11] Drawing on new archival findings, some authors also question the long-held assumption that autarky was a guiding maxim of Soviet economic policy during the Khrushchev years of the 1950s and 1960s (see, for example, Oscar Sanchez-Sibony's *Red Globalization*).[12] In line with this, Western researchers have begun to scrutinise Soviet economic data more critically, demonstrating that foreign trade was far more important to the national economy than official Soviet statistics would suggest. But even if the statistics are disputed and the figures for trade as a proportion of the national economy are indeed low, the essential story remains the same. Throughout Soviet history, but especially during the latter part of the Cold War, the Soviet Union sought international business opportunities and its leaders became increasingly aware of global economic

[8] Dietmar Neutatz, *Träume und Alpträume: Eine Geschichte Russlands im 20. Jahrhundert*, Munich: Beck, 2013.

[9] Carsten Goehrke, *Russland: Eine Strukturgeschichte*, Paderborn: Schöningh, 2010, p. 138.

[10] Bernd Greiner, Christian Th. Müller, and Claudia Weber (eds.), *Ökonomie im Kalten Krieg*, Studien zum Kalten Krieg 4, Hamburg: Hamburger Edition, 2010.

[11] Falk Flade, *Energy Infrastructures in the Eastern Bloc: Poland and the Construction of Transnational Electricity, Oil, and Gas Systems*, Wiesbaden: Harrasowitz Verlag, 2017; Per Högselius, *Red Gas: Russia and the Origins of European Energy Dependence*, New York: Palgrave Macmillan, 2013; Dunja Krempin, *Die sibirische Wucht: Der Aufstieg der Sowjetunion zur globalen Gasmacht, 1964–1982*, Osteuropa in Geschichte und Gegenwart 7, Vienna, Cologne, Weimar: Böhlau, 2020; Jeronim Perović (ed.), *Cold War Energy: A Transnational History of Soviet Oil and Gas*, Cham: Palgrave Macmillan, 2017; Felix Rehschuh, *Aufstieg zur Energiemacht: Der sowjetische Weg ins Erdölzeitalter, 1930er bis 1950er Jahre*, Osteuropa in Geschichte und Gegenwart 1, Vienna, Cologne, Weimar: Böhlau, 2018. Russian-language historiography, on the other hand, has many studies dealing with the topic of energy, which I draw on in this book. Studies based on Soviet archival material, however, are also rather rare for Russian-language historiography, especially for the later Soviet period, because the corresponding archival holdings have not yet been released. One of the best Russian-language analyses of recent Soviet energy history, which also includes Soviet archival documents, is that of Russian historian Mariia Slavkina: M. V. Slavkina, *Neftegazovyi faktor otechestvennoi modernizatsii 1939–2008*, Moscow: Ves' mir, 2015.

[12] Oscar Sanchez-Sibony, *Red Globalization: The Political Economy of the Soviet Cold War from Stalin to Khrushchev*, Cambridge: Cambridge University Press, 2014.

dynamics. As will be argued, this awareness had a significant impact on Moscow's foreign economic direction and its foreign policy choices.

Drawing on material from Russian archives, published document collections, memoirs, and new research in multiple languages, this study ties in with a growing body of literature that argues that international trade issues played a far more important role in the Soviet Union's economic development path and its foreign policy orientation than previously recognised. By looking at internal Soviet discussions on the use of natural resources and energy strategy, this book provides deep insights into Soviet thinking about oil, gas, trade, and external relations. In line with other recent scholarship, this book maintains that the fabric of energy relations between Western Europe and the Soviet Union that emerged in the late 1960s and 1970s did not develop because of such 'impersonal forces' as technological progress and economic globalisation. Rather, these relations resulted from the preferences and choices of concrete actors involved in economic and trade policy decisions.[13] In the late Soviet period, the Soviet leadership weighed various options for the future of its energy industry and considered several different international cooperation efforts, including major natural gas projects in Siberia with US and Japanese companies. The question is why some projects came to fruition while others did not. To answer this, we need to consider global, regional, and domestic dynamics and also the mindsets of the key actors involved in planning and policy-making at the time.

It is certainly true that, especially during the Cold War, political considerations played an important role for the Soviet Union in selecting foreign business partners and determining the geographical direction of trade. After all, for Soviet decision-makers, trade was always part of the systemic struggle between communism and capitalism. Contrary to the notion, widespread among Cold War–era Western observers and policy-makers, and also reflected in parts of Western historiography, that the Soviet Union's foreign economic policy was mainly a function of its desire to expand its global political influence, geopolitics was not the main driver behind the Soviet leadership's eagerness to establish ever-closer energy ties with the capitalist West. From the late 1960s, when Moscow signed its first long-term contracts on natural gas supplies with Western European companies, the Soviet Union committed itself to international trade agreements motivated much more by sober cost-benefit calculations than by any geopolitical grand design.

[13] Per Högselius, et al., *Europe's Infrastructure Transition: Economy, War, Nature*, Basingstoke: Palgrave Macmillan, 2016, p. 9.

The rise of the Soviet Union as an international energy power went hand in hand with growing East–West economic ties and deepening of contacts between the socialist and capitalist markets. This process had a profound impact not only on the Soviet Union's self-perception as an energy power but also on Moscow's ideas about the nature of its relations with both the socialist states of Eastern Europe and the Western capitalist world. The history of Soviet foreign trade is important because the ever-closer economic interdependence of the late Cold War period stimulated debates within the Soviet Union on fundamental questions of trade policy, profitability, exchange rates, the international credit market, and the state monopoly on foreign trade – precisely those issues that would become relevant in the second half of the 1980s in the course of the gradual privatisation and liberalisation of the economy under Mikhail Gorbachev. The evolution of the relationship between oil, natural gas, trade, and international relations during the late Soviet period would have a major impact on Russia's development after the break-up of the Soviet Union, affecting its position and role in the post-Soviet space, in Europe, and in the global economy.

The fact that there are still relatively few studies addressing the connection between energy and the formation of Soviet foreign relations is surprising since the possession of large quantities of oil and other valuable natural resources had an important impact on how decision-makers in Moscow thought about economic development, international affairs, and the opportunities and risks of their country's participation in world trade. Whereas in the eighteenth and much of the nineteenth centuries, there was a widespread belief that it was Russia's almost infinite territorial expanse that made it superior to its neighbours, in the late nineteenth and twentieth centuries geography was increasingly supplemented by geology – the notion of an almost limitless wealth of natural resources.[14] The concept of virtually inexhaustible natural resources became more and more prominent, with these resources serving as a crucial element in the state's perception of its great power status and also as a kind of 'backup' in the event of an international crisis or even hostile attack.

The mere availability of natural resources does not necessarily explain why a country has followed a particular historical path. An abundance of natural resources can create opportunities for modernisation, transformation, and trade. But it can also be an obstacle or even a 'curse' if governments use the rents from hydrocarbon exports to postpone

[14] Sonja Margolina, 'Geographie und Herrschaft: Russland und das Öl – eine alte imperiale Strategie gelangt zu neuer Entfaltung', *Neue Zürcher Zeitung*, 13 July 2006, p. 25.

necessary economic reforms, buy the loyalty of elites, placate society with low taxes, and strengthen the military and security apparatus.[15] Given Russia's enormous wealth of natural resources, an account of Russian history through the lens of energy thus promises to reveal much about the workings of the political and economic system but also about notions of modernisation and development, great power identity, and how to engage with the outside world.

Russia's behaviour, both past and present, cannot be adequately understood without considering the energy factor, and the aim of this book is to uncover the manifold links between resource wealth and policy choices. It asks how Russian political leaders and decision-makers, at different points in time, viewed the role of energy – particularly oil and gas – and how they assessed the political and economic opportunities they believed would arise from international trade and exchange. While the primary focus of this book is on the Soviet Union during the later Cold War period, the analysis of energy policy and trade relations over a longer period helps to improve our understanding of Russia's changing self-image as part of an interconnected world.

[15] On the 'oil curse', see the seminal work by Michael L. Ross, *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*, Princeton, NJ: Princeton University Press, 2012.