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Oil and gas could explain Putin's costly attempt to control the Crimea

According to Kremlin insiders the annexation has been 6 years in the planning

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Why does Putin want the Crimea?

If the President of the Russian Federation is to be believed his whole campaign is driven by the need to protect ethnic Russians from neo-Nazi extremists that they claim have infiltrated the new temporary government in Kiev.

That sounds laudable - until you look at the wider picture of how Russians are actually treated in their homeland today. Russia has very serious social problems with drug and alcohol abuse and HIV Aids, but the state does virtually nothing to help. Ethnic minorities are treated with disdain whilst the gay community has been forced underground. Those close to the Kremlin enjoy limitless wealth whilst real poverty now affects over 20 per cent of the population. Clearly support for ethnic Russians in Russia is not a Presidential priority.

As for protecting ethnic Russians in Ukraine from neo-Nazis, well, there's another conflict of interest. Some would say that there are more neo-Nazi politicians in the Russian Duma than there are in Ukrainian Rada and that they have been there since the Liberal Democratic Party of Russia (LDPR) was founded 20 years ago.

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So it would be natural to ask why all sudden the interest in Crimea, as well as South and East Ukraine. Crimea is a part desert, part mountainous region most famous for its history, tourism, vegetables and sweet wines - as well as the Sevastopol port Russia uses as a naval base. The South of Ukraine is primarily farmland whilst the East is home to the former Soviet mining, coal and steel industries - all of which are in need of massive investment and are a major competitor to similar industries in the Russian Ural regions.

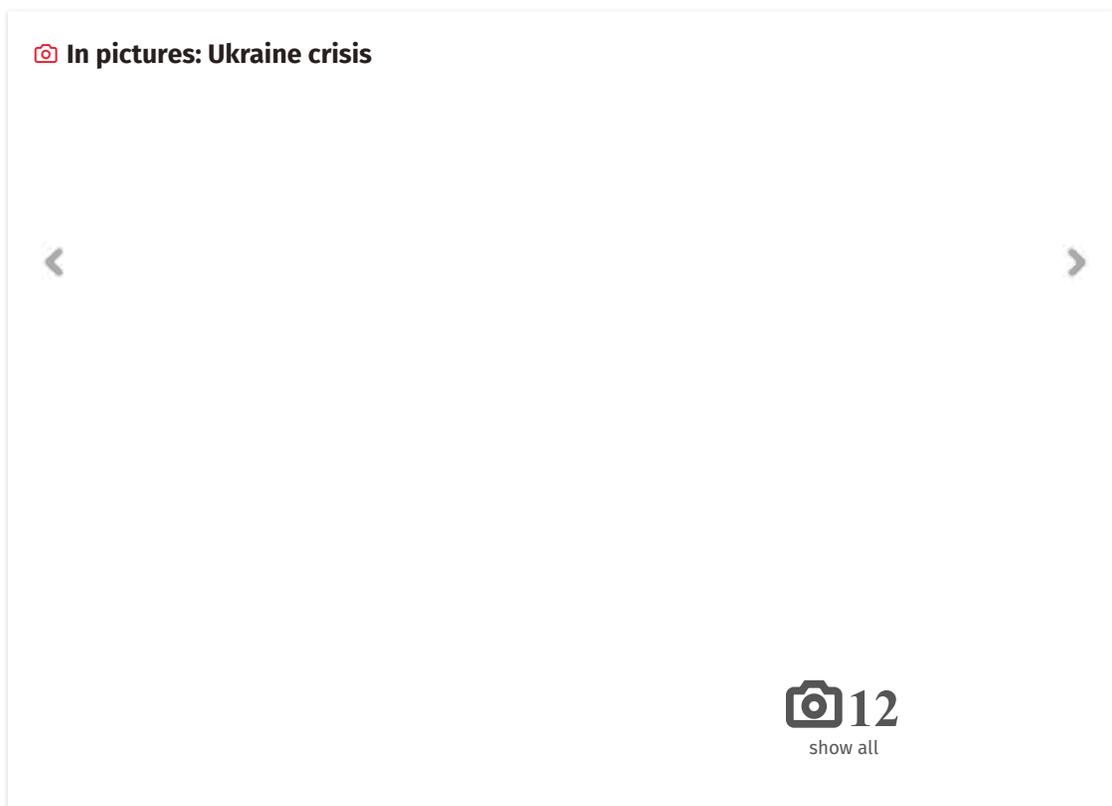
To date President Putin has wasted the £33 billion that he spent on building the image of a new Russia at the Sochi Winter Olympics; his aggression has caused the Rouble to slump requiring the Central Bank to step in at a cost of £7 billion, and the Russian stock market seems to be in a nose-dive.

The total cost to Russia of this Crimean adventure might reach £43 billion and that is without the longer-term damage of potential targeted sanctions.

Why go in? The answer, we think, is simple: oil and gas. Putin's whole campaign against Ukraine could be nothing more than a land grab to ensure that Gazprom, a company in which he has considerable personal interest, controls who, how and when exploration and extraction will begin.

According to Kremlin insiders the annexation of Crimea has been 6 years in the planning.

By annexing all the land adjoining the Black Sea, Russia would also annex the offshore rights and anything found therein. It doesn't matter that as of today the discoveries have been relatively small. If serious quantities of oil and gas were to be discovered it will be too late - and that is a risk President Putin would not be prepared to take, as it would undermine his entire economic structure.



Frankly it doesn't matter if the Crimea never produces a drop of oil. Stopping production alone would preserve the Kremlin's domination of the supply of energy from Russia. However all the signs are that the onshore and offshore fields will live up to expectation.

Exploration of the Black Sea off Crimea has gone into overdrive. ExxonMobil, Chevron, Shell, Repsol and even Petrochina have begun to show a real interest in working with Kiev to develop the entire Ukrainian sector.

Offshore magazine reports that Exxon and Rosneft have already made encouraging finds in the Russian sector near Novorossiysk whilst in the Romanian sectors test drilling by 'OMV' has found interesting

deposits, so much so that the major oil companies are now bringing in serious deepwater drilling technology. Trans Euro Energy has already found commercially viable resources of natural gas on the Crimean mainland.

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This would give another reason for why Putin wants to hold onto the port of Sevastopol – also an important naval base - as it is a perfectly-located deep water port capable of servicing the oil fields and the massive drilling technology, and it's barely 100 kilometres (60 miles) from the exploration zones.

But it's not just the offshore energy resources that could be of interest to Putin. Included within Southern and Eastern Ukraine are the major export terminals in the port of Odessa, the military ship building yards at Nikolayev, a major oil refinery, massive chemical plants and grain export silos, hydro-electric plants along the Moldavian border in the Russian controlled Transnistria region, two of the largest nuclear power stations in Europe, three huge solar power stations in Crimea, the extensive coal-bed methane gas fields in the Donbass basin, plus the largest resources of magnesium on the planet and huge stocks of coal and iron ore.

Add to this is the £12 billion saving he would make by running the new South-stream gas pipeline overland through Crimea and Southern Ukraine as opposed to under the Black Sea to Bulgaria and you can see that £42 billion is quite a cheap price to pay - especially when the West has such a short and selective memory.

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