

# RUSSIA MONITOR

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2 May 2017

## NUCLEAR THREATS

**Russia is consequently violating international treaties and is developing the forbidden types of armaments. This proves the determination of Moscow, which is aware of the overwhelming conventional military supremacy of the United States. The only field where Russians can challenge their major opponent is nuclear weapons. Thus we are constantly provided with information about development of missiles capable of carrying nuclear warheads. It's difficult to assess the credibility of such information, but what counts here are psychological effects.**

**R**ussia has announced that in mid April it successfully tested the world's first ever maneuvering hypersonic missile—the “3M22 Zircon” (3M22 Tsirkon). This missile can strike targets within ranges of 400 kilometers, with both conventional and nuclear warheads, at a speed of almost 100 km/hour. Zirkons are to be inaccessible for the existing US antimissile systems. Thus Russians claim that the deployment of this weapon will have a dramatic effect on the balance of power at sea. However, it's not clear whether the test was actually successful and if the development of this weapon is so fast and effective. Information about Zirkons

may be just an element of Russians playing a psychological game with the Americans. For Russians, the essence of this game is to keep convincing their rival of a spectacular quality improvement in Russian nuclear potential. For instance, on April 8 the Commander-in-Chief of Russian Aerospace Forces announced that Russian troupes would soon be equipped with the S-500 Prometey surface-to-air missile system. This weapon will have the range of 600 km and it will destroy up to ten ballistic missiles at the same time. Russians maintain that apart from developing new types of arms they are also replacing old systems with new, functioning ones. For example, Tochka missile

systems are being replaced by Iskander-M.

It is based on the Iskander system, according to some experts, that Russians are developing a new guided missile. And this isn't propaganda, these are facts. Americans are writing about it officially because this new weapon violates the disarmament treaty of 1987. State Department has recently issued its annual report on arms control. According to the said report, Russia has been developing ground-launched cruise missiles for the fourth consecutive year, thus violating the Intermediate-Range Nuclear Forces Treaty. The INF Treaty was signed by the USA and Russia, with a view to eliminate all nuclear and conventional missiles in Europe. Russia, as the legal successor of the USSR, inherited this obligation. Now it has ceased to fulfil it. The United States for the first time formally accused Russia in 2014 of developing a missile in breach of INF. However, already in 2014

experts claimed that Russian project had been launched a few years earlier. Moreover, last March US military headquarters informed the Congress that Russia had begun to deploy the forbidden missiles. Some congressmen call for deployment of US medium-range missiles in Europe in response to the new Russian threat. While the information about new guided missile means a greater security risk for the NATO countries in Europe, the reports on new long range weapons are repeated by Russians with the aim to frighten the United States. The Russian strategy seems to be based predominantly on the assumption that the only way to impede a possible armed response of the USA to Russian aggression against European allies of the US (in particular at the eastern flank) is nuclear blackmail: not only threats of using tactical nuclear weapons in military action zones, but also of hitting targets in America.

2 May 2017

## A RUSSIAN THREAD IN IRANIAN ELECTIONS

**Iranian conservative presidential candidate met with Tatarstan President, presented as Vladimir Putin's envoy. Iranian reformists reacted sharply. The incident proves Iranian mistrust towards Russia. The current tactical alliance in Syria doesn't overshadow past experiences, painful for Teheran.**

**E**brahim Raisi is the chief opponent of the incumbent president Hassan Rouhani in the presidential elections to be held on May 19. The former is supported by the conservatives, the latter by the reformists. Rustam Minnikhanov since 2010 has been the President of Tatarstan, one of Russian Federation states. The Tansim News Agency, sympathizing with conservatives and backing Raisi, when reporting the meeting, described Minnikhanov as "an envoy of President Putin". This met with a negative response from the political opponents of Raisi. Some people from reformist circles and the president's camp suggest that such talks raise the suspicion of

Russian interference in the elections. Now the formal character of the meeting is a major controversial issue. The critics say that if the meeting was held within the framework of Raisi's presidential campaign, it was beyond the protocol and that Iran's Foreign Ministry should provide explanations on the matter. Raisi's defenders, on the other hand, say something opposite, pointing out the religious character of the visit by the Russian guest ("as a Muslim, he sought to visit the holy shrine of the Shiite, which Raisi manages").

It should be expected that Rouhani's supporters will attempt to heat up the debate





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on the issue, since the topic of “Russia meddling in our affairs” can win them a lot of brownie points. The Iranian public opinion generally isn’t too favorable of Russia which is a result of historical grievances. Already in the 19th century the powerful northern neighbor imposed humiliating treaties on the Persians, depriving them of large territories, and after WWII the Soviet army occupied a part of Iran for several years, attempting to install there a communist regime. If Teheran collaborates with Moscow, as for example in the war in Syria (and even there the strategic objectives of the two countries are very different), it is only for strategic reasons. The temperature of relations between Iran and Russia depends on the quality of relations between Teheran and

the West. However, the Iranians, even if they strike up an alliance with Russia, are extremely sensitive to every manifestation of Moscow’s patronizing tone. When last summer Russians started to boast of having one more “war base”, this time in Iran, they were immediately thrown out of there (the issue was using the airport by Russian pilots bombarding targets in Syria). It’s important to note that not only the reformers are sensitive about internal affairs of Iran. Last December, the Tabak news site, considered as close to Moshen Rezaei, the chief commander of Islamic Revolutionary Guard Corps, called on Iranian officials to convey a clear message to Moscow that it should not meddle in Iranian’s domestic affairs.

4 May 2017

## COUNTER-ATTACK OF RUSSIAN DIPLOMACY

**That was an eventful long May weekend for Vladimir Putin. In just two days, he met the leaders of Germany and Turkey and had a phone call with the US president. The main topic was the conflict in Syria. This way, the Kremlin tries to retake the initiative after a series of political setbacks on this front.**



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**O**n 2 May in Sochi, the Russian president entertained chancellor Angela Merkel and shortly after he spoke with Donald Trump on the phone. Recep Tayyip Erdogan arrived in Sochi the following day.

The conversation with Merkel was the first bilateral meeting of the leaders of Germany and Russia since Russia's aggression on Ukraine in 2014. And it was the Ukraine conflict that took centre stage. Judging by what both leaders had to say at the press conference, the meeting with Merkel did not go according to Putin's plan. Sanctions will continue, Russia's G8 return is not on the cards, and the leaders of Germany and Russia clashed on the issue of what caused the Donbas conflict. Merkel also stiffened her position on the timeframe of Minsk accords implementation: first Ukraine's access to the border with Russia, and only after that, local elections in the Donbas. On top of that, she also addressed the issues of persecution of gays in Chechnya and banning the activity of Jehovah's Witnesses in Russia. Neither was any agreement as to Syria reached. Merkel reiterated Germany's hard-line stance towards the Assad regime and criticized Russian aid for Damascus. In her view, Russia is to a certain degree responsible for the human casualties of airstrikes.

Also the phone call with Trump brought

essentially nothing new. It was the third time the leaders talked after the American took office but the first call after the US strike on Assad's base. While there was a hint that the two leaders could meet in the corridors of the G20 summit, not much has changed in respect of profound differences regarding key issues that came to light during April's visit of the chief US diplomat to Moscow. Both countries have more and more differing views not only about Syria and Ukraine, but also Afghanistan and the INF treaty.

Perhaps the meetings with Turkey's president are closest to a success for the Kremlin. It seems that after the chilly spell in Ankara's relations with Moscow that followed the Turks' support of the US strike on the Shayrat base, the situation is returning to the previous state, aided by the emerging tensions on the Ankara-Washington line in the context of the Kurdish problem. Erdogan has not lived to see diminishing US support for the Kurdish units in northern Syria, so he's voicing new threats. This time, while the president was meeting with Putin in Sochi, his adviser suggested in the media that American military advisers who accompany Kurdish fighters from the YPG formation could become target of Turkish airstrikes. The Russian idea of creating "security zones" in Syria suggests that the Moscow-Ankara-Tehran combination is back on.



Putin is unlikely to have expected any great success of his conversations with Merkel and Trump, the message was rather the mere fact that they were held. This way, Russia is again demonstrating that it is a player that cannot be left out from the resolution of any serious conflict (mainly Syria and Ukraine). It is also an important message for the Russian public which could have started to doubt the position of its president as a world power in the wake of recent events in Syria and US activities. The Kremlin had to show that it will not succumb

in its policies by an inch under American pressure (Shayrat strike, Tillerson's visit), as this would be poorly received by most of Russia's public opinion. This is something Putin cannot afford in an election year. This is by means the end of the diplomatic offensive, which targets important countries from the US point of view. On 10-11 May, the leaders of Israel and Palestine will hold talks with Putin, and a few days later, the president of the Philippines is expected in Moscow.



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4 May 2017

## SYRIA: DE-ESCALATION THE RUSSIAN WAY

According to a report by the Russian daily “Kommersant”, Russia has a plan to settle the conflict in Syria by dividing the country into four security zones and does not rule out deployment of foreign military contingents. This idea was behind Moscow's recent diplomatic offensive. The plan is Russia's reaction to the changing situation in Syria in the wake of the missile attack on Assad's regime base.

According to the draft document allegedly known to the paper, four “de-escalation” zones would be created: in the Idlib province (now the main rebel stronghold), north of Homs, in eastern Ghouta, and in the south of Syria. Use of all types of weapons would be prohibited within the zones. These areas would be safe for humanitarian organisations and this is where reconstruction of social infrastructure could be started. Moscow plans creation of demarcation lines along borders of the zones to prevent exchange of gunfire between the warring parties. These lines would be where foreign military units could be deployed. According to the “Kommersant”, the document makes no reference to specific countries to deploy the troops. However, the plan’s “guarantors” are named: Russia, Turkey, Iran.

The Russian plan is an attempt to seize political initiative in Syria by Moscow, which it lost in early April after the chemical attack of Assad’s regime on a town controlled by rebels and the response by the Americans who launched an assault on a government base. Suddenly, the Kremlin lost its dominant

position in Syria, which peaked in late December when the agreement on conflict resolution was signed with Iran and Turkey. Putin seeks to reactivate that deal, hence this most recent initiative coincides with the new round of negotiations held in Astana under the auspices of Moscow, Ankara, and Tehran. The plan to create security zones in Syria was announced by Vladimir Putin on 3 May. He said that the proposal was already presented to the presidents of the USA and Turkey. The context of Putin’s meeting with Angela Merkel in Sochi makes the Russian idea appear as an international one. In reality, however, the plan’s chances of success are rather small, not least due to the fact that it fails to address the problem of Kurds. Introduction of foreign contingents is unrealistic; this is rather an attempt to legitimize the Iranian and Russian units already present in Syria (this is why Moscow does not want UN forces there). In the worst case, if other players reject its idea, the Kremlin will always be able to claim that Russia is the main advocate of peace in Syria, the one that time and time again comes up with concrete proposals.

5 May 2017

## AN ALARM BELL FOR KREMLIN

**A most recent opinion poll of Levada-Center shows that Vladimir Putin would have problems with winning presidential elections in the first round. Only 48% of respondents declared that they would cast their vote for Putin. The drop in support for the incumbent president is one of symptoms of a crisis of the entire political scene. If it is not “animated” top-down, next year Putin may have problems with the achievement of two basic objectives connected with his reelection.**

So far Putin has run in presidential elections three times, always winning in the first round: in 2000 (53%), in 2004 (72%), and in 2012 (64%). At least the first time, there would have been a second round if not for the vote-rigging. The incumbent president hasn’t announced yet if he’ll seek reelection, but it’s practically certain that he will. Kremlin

hasn’t indicated any politicians who may be considered as potential candidates to succeed Putin, as was the case in for instance in 2007 when Putin promoted Dmitry Medvedev and Sergiei Ivanov to two practically equivalent positions and let it be understood that he would select between the two.



The recent poll results mean a drop of five percentage points, compared to 2016. Putin's ratings are back to the level from the period just before the explosion of euphoria following the annexation of Crimea. However, president's electoral appeal has been declining systematically since then (62% and 53% in 2015 and 2016, respectively). Even the activities undertaken on the international arena, foremost the intervention in Syria, failed to prevent this trend. Meanwhile, the period of prosperity in international politics has ended with Donald Trump's taking presidential office and it'll be more difficult to attain abroad some goals that might be "sold" to Russian public as Putin's spectacular success, restoring the status of Russia as a world superpower. The most recent poll was conducted on April 21-24, just after the calamity suffered by Kremlin in Syria (US military strike hitting Assad regime's airbase in Syria).

It's most noteworthy that besides the fall in Putin's ratings, there is a growing number of Russians who are still undecided (19%) or who may not vote at all (13% will certainly not vote, and 10% are still hesitating). The growing apathy among the electorate is a serious problem for Kremlin. It's true that in the fall parliamentary elections the ruling United Russia party obtained the highest result, but the attendance was the lowest ever. Yet the incumbent president must achieve two goals in reelection: not only must he decisively win in the first round (getting at least 60% of votes), but the voter turnout must be sufficiently high to give stronger legitimacy for the renewed presidency.

The problem is that, to be honest, Putin has no credible rivals. The name of Alexei Navalny would certainly mobilize the voters, but he's been eliminated by a sentence banning him to participate in presidential elections for five years. There aren't any other strong candidates among the non-system (real) opposition. Also

the system (apparent) opposition doesn't look too good. The leader of communists Gennady Zyuganov as well as Vladimir Zhirinovsky from the Liberal Democratic Party of Russia are both "worn out" playing cards. For many years, they've run in presidential elections to legitimize the Kremlin's candidate. Their parties have petrified and become well-rooted in the system of power, and the leaders themselves are even older than Putin. Such candidates not only fail to increase the voter turnout (in Levada poll they got 3% each), but hardly anybody treats seriously their rivalry with the candidate who is doomed to win.

People are getting tired of seeing the same faces, in the Kremlin or in the Duma. Although Putin keeps refreshing (rejuvenating) his cadres, but clearly his new aides-de-camps, which are bleak and not charismatic, do not appeal to ordinary Russians. Adding to this are economic and social problems. Decreasing life standard causes a growing feeling of frustration. So far this situation doesn't affect Putin directly. From time to time, President uses some governor, and occasionally even the prime minister, as a "whipping boy" (in line with the "good tsar, bad boyars" principle), but there exists a risk that in the period of less than a year before the elections in Russia, this critical line will be crossed.

The task that Kremlin's political technocrats have to tackle is to decrease the difference in the ratings of Putin: while 48% of Russians are willing to cast a vote for Putin, 82% of the population still supports actions undertaken by the President. The question of how to use the potential existing in the second poll result remains open. What does the necessity to "enliven" the electorate actually mean? This wouldn't be easy, as attempts to do so may mobilize opponents of the government and generally people dissatisfied with the situation in the country.



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5 May 2017

## A „RAILWAY” LEAD IN A SCANDAL IN THE INTERIOR MINISTRY

**Corruption in which Interior Ministry colonel Dmitry Zakharchenko was involved had some links to the Russian Railways. The investigation keeps expanding and will very likely be used in some internal games in the largest Russian employer. Actions undertaken by FSB and by the investigators in this case benefit the Rotenberg brothers – businessmen and close associates of Vladimir Putin.**

Colonel Dmitry Zakharchenko was employed in the anti-corruption structures of Interior Ministry (MI). On 9 September 2016, he was arrested by functionaries of the elite FSB’s Interior Security Department. The investigation in his case is still going on. Russian media have just informed about new findings in the case. Investigators’ suspicions that 120 million dollars and 2 million euros in cash found in Zakharchenko’s apartment were siphoned out of some subcontractor companies cooperating with the Russian Railways. Thanks to support

of US intelligence, it was established that the said amounts were transferred from the USA to two Russian banks connected with a group of businessmen who for many years operated within the Russian Railways structures. The investigators suspect that the cash is the “cut” for Zakharchenko and his younger associates from IM for “protection” of the said bankers. The money ended up on various accounts, but when Zakharchenko realized that he was at FSB’s gunpoint, he transferred whatever he could to Switzerland, to bank accounts opened by his father, Victor Zakharchenko. Some



cash was hidden in Zakharchenko's apartment. FSB took action before Zakharchenko's people managed to gradually siphon off the cash to new bank accounts, opened under false identities.

The "railway" lead in Zakharchenko's case may be used for reckonings in the Russian Railways, or more precisely for clearing this gigantic company of people loyal to its former president Vladimir Yakunin (he had to resign in 2015, but still remains a very influential

figure). Currently, the corruption schemes in Russian Railways are being taken over by allies of Arkady and Boris Rotenberg. Also Oleg Belozerov, who is currently the president of Russian Railways, is said to be a Rotenbergs' man. The Rotenberg brothers have been friends of Putin since the time when he worked in Sankt Petersburg. When he took the Kremlin, they started to build their business empire at a rapid rate – making a fortune on state contracts and companies involved in public projects.



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6 May 2017

## GAZPROM REVENUES DROP

**The Russian monopolist hit records in gas sales on the so-called “far abroad” markets (this term is used in Gazprom nomenclature for Turkey and the EU, except for the three Baltic states). Yet this doesn’t at all translate into profits, which are falling as Russians are forced to sell their “blue fuel” on increasingly less favorable terms.**

**I**n mid April Russia proudly published its gas export results. They show that from early January to April 15, Russian exports of “blue fuel” amounted to 58.5 billion m<sup>3</sup>. This is an almost 15% increase, compared to analogous period last year. It’s noteworthy that Russians

gained most on the markets of countries interested in Nord Stream 2, namely Germany (who purchased 18.6% more gas than last year) and Austria (increase of as much as 68.5%). In early March, president of Gazprom Alexei Miller stated that sales of gas to the so

called far abroad countries may grow by not less than 16% whereas sales value may reach 35 billion dollars. Yet the increased sales don't translate into any increase in profits.

This is demonstrated by the information provided two weeks later by the Russian ministry of finance, which announced that due to lower revenues from sales of oil and gas it would be necessary to cut fund allocation for foreign currency purchases in May and early June. Moscow is selling more gas but it is making less money out of it. In April, the real export volume of oil and gas products was smaller than planned. Lower revenues resulted not only from the worse sales conditions but

also from the repayment of overcharged duties, the ministry of finance clarified. However, the poor results have been caused by the former. It's turned out that Gazprom's net profit in this year's first quarter amounted to 107.64 billion rubles, which means a decrease of as much as 42%, compared to analogous period last year, when the Russian company recorded profit of 187.21 billion rubles. It isn't therefore surprising that Gazprom lacks funds to carry out its flagship projects, notably Nord Stream 2. However, western companies that are partners in the project are ready to lend a helping hand (a bridging loan), which nevertheless makes Moscow increasingly dependable on the goodwill of the West.

7 May 2017

## WILL THE REGIME GET RID OF NAVALNY?

**There are indications that after many years of ban imposed by Russian authorities, Alexei Navalny will finally be able to travel abroad. When the opposition activist obtained a passport, he applied for a visa to one of EU countries. His trip connected with eye surgery should take at least a week. It's unclear, however, if the regime will allow Navalny to return. The trip may be used to solve the increasingly burdensome problem caused by the blogger who reveals corruption in the ruling elite and is able to mobilize thousand of his countrymen to take to the streets.**

**T**he opposition activist, who at the end of April fell victim to a hooligan attack – Kremlin inspired, as everything seems to indicate – has lost 80% of the vision in his right eye. On May 4, he was unexpectedly issued a passport, after five years of denials. It's unclear where he intends to go for treatment; earlier he mentioned Spain or Switzerland. Navalny had been given a suspended sentence twice in the past. Such sentence gives grounds for prohibiting a Russian citizen to go abroad. Nevertheless, Navalny did get a passport. Federal Penitentiary Service of Russia, however, reminded him promptly that people who have been convicted are forbidden to leave the country. Yet the

Moscow court's spokesman concluded that a suspended sentence, which on May 3 became final (5 years of imprisonment for alleged embezzlement), didn't prohibit Navalny from going abroad.

It's possible that the permission for Navalny to go abroad results from the fact that Kremlin is seeking to engage the US in cooperation in Syria and therefore doesn't want to be accused of preventing Navalny's treatment. Especially considering the fact that recently Navalny has enjoyed increased interest of the West, after he managed to take thousands of Russians to the streets, protesting against corruption of prime minister Dmitry Medvedev. Any information about Navalny is closely followed, especially





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after the attack on him.

However, Navalny's absence may be used to strike a final blow at his movement. On May 6, Navalny's collaborators informed that recently, in several towns, the owners of apartments housing his electoral campaign headquarters terminated lease agreements. The ambiguous position of state institutions on leaving the country by Navalny means that Moscow will be able to arbitrarily interpret the situation in which the blogger left the country. He may

even be accused of breaking the law, or may be banned from coming back to Russia. It cannot be ruled out that Kremlin has concluded that it's safer after all to have Navalny out of Russia. Experience so far has shown that Putin's opponents who leave Russia become less dangerous for the regime when on exile. It is much easier to present such person to public opinion as a foreign intelligence agent or at least a traitor who is pursuing anti-state activities for foreign money.

## 8 May 2017

# BLACK CLOUDS ARE GATHERING OVERT PUTIN'S CHIEF OF PERSONNEL

**Recent arrests on corruption charges of top functionaries in the Interior Ministry's Main Economic Security and Anti-Corruption Department have meant that the influence of Yevgeny Shkolov, a high-rank Kremlin official, has come to an end in the said ministry. His position has been getting weaker for the last two years. An extremely severe sentence in the Sugrobov's case may even be a forecast of Shkolov's dismissal.**

**O**n April 27, Moscow court sentenced a former high-rank IM functionary, general Denis Sugrobov, to 22 years in prison

– this was the most severe verdict passed in the contemporary history of Russia (Russia Monitor has written about it). Sugrobov was



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arrested in February 2014 when he was the head of IM Main Economic Security and Anti-Corruption Department. Another functionary of this unit, colonel Dmitry Zakharchenko, was also arrested and awaits trial. The investigation in his case keeps expanding with more and more people involved (see Russia Monitor). What is the link between the two cases, apart from corruption charges? Firstly, in both cases the suspects were under surveillance of FSB. Secondly, both Sugrobov and Zakharchenko were protégés of Yevgeny Shkolov, president's assistant for personnel matters.

Shkolov belongs to the so-called Dresden group, i.e. a group of KGB officers who served in Dresden together with Vladimir Putin. The incumbent president and Shkolov met again in 2000 in Ivanovo where the latter worked at the time. The effects didn't have to be awaited for long. First, Shkolov was promoted in Ivanovo, and in September 2002 he ended in the Kremlin. In 2004, he left Kremlin to become Transneft's deputy. In 2006, Shkolov joined the Interior Ministry and within a year he eliminated Oleg Safanov (connected with Victor Ivanov) and replaced him as deputy minister. At that time, in 2011, Sugrobov (relative of Konstantin Chuchenko, former KGB agent and Medvedev's man) became

the head of the anticorruption structure in Interior Ministry. However, while reforming the ministry, Shkolov made enemies in many interest groups, and in 2011 he was dismissed. Putin once more offered him a helping hand. Shkolov was appointed to the management of Uralvagonozavod. Already in May 2012 he achieved spectacular success: he was named an adviser to the president in charge of personnel policy. Next two years marked the apogee of Shkolov's influence. In 2012, he was called the number 1 unofficial member of Russian siloviki group. He was granted extensive powers to manage anticorruption policy. In fact, he was steering the Interior Ministry – he was responsible for its personnel policy.

In February 2014, the situation changed completely. Immediately after Sugrobov's arrest, media launched an information campaign targeted against him, which also hit Shkolov, his Kremlin protector. Shkolov almost disappeared from the information sphere, and his position in the nomenclature weakened dramatically. Putin forbade Shkolov to interfere with the FSB investigation. More defeats followed, including fiasco of the idea to create an Investigative Committee bringing together all law enforcement bodies in the country or failed attempt to remove

prosecutor general Yuri Chajka. Adding to that, Shkolov's conflict with Sergey Ivanov, the chief of staff of presidential executive office, escalated. Shkolov also lost all the influence over personnel decisions in the Defense Ministry. Later, in the fall 2016, there came one more blow – the arrest of colonel Dmitry Zakharchenko, another of Shkolov's protégés accused of corruption.

Shkolov protected his protégés as long as he could. It's a known fact that already in the spring of 2013 the Main Internal Security Department in the Interior Ministry started to watch closely their colleagues from the Economic Security Department, namely

Sugrobov, Kolesnikov and others. Sufficient evidence was collected to bring charges. However, an order was given from the top – “we don't do anything about it”. At the time it was Shkolov who decided about everything in the Interior Ministry. The working group for the “case of economists” was dissolved, officials were switched between their posts, some were removed, others were threatened and asked to be silent. But one of them leaked the information – someone started to put it on the Internet, anonymously. FSB got interested in the case, more precisely its management under Oleg Feoktistov, Sugrobov's enemy. It all ended up with arrests in Interior Ministry.

## 9 May 2017

# GERMANY – RUSSIA. COLD IS IN THE AIR.

**The closer to German elections, the stronger tension in Berlin – Moscow relations. The Germans expect Russian interference with their politics, so they get proactive. On the one hand, their counterintelligence say that any decision to attack will come directly from the Kremlin, on the other chancellor Angela Merkel is stricter on the Ukraine issue and criticizes the Russian government for their operations in Syria and repressions at home. More critical opinions about Moscow can also be observed in the media.**

**O**n 4 May, the Federal Office for the Protection of the Constitution (BfV) issued a warning stating that increase in cyberattacks aimed at German politicians and officials should be expected before the parliamentary election on 24 September. The head of counterintelligence, Hans-Georg Maassen, at the conference in Potsdam mentioned that the agency he runs has, among other things, prevented a phishing attack against CDU's electronic mail. The Germans suspect that Moscow has been conspiring against the election for a long time. As early as in May 2015, hackers stole “a large amount of data” from the Bundestag that could be used for misinformation purposes and to gain influence before election to the Bundestag.

As Maassen said, the decision would be made in the Kremlin. These are very strong statements, emphasis being in particular put on the political plot and clear identification of the Russian government as the director to the cyberattacks.

It was not no coincidence that Maassen gave his speech two days after Angela Merkel's visit to Sochi. The first meeting of German and Russian leaders since autumn 2016 showed that the stances of both states on key issues not only had not gotten any closer but in fact are further apart. Merkel made it clear that Western sanctions would be upheld and Russia's return to the G8 was unrealistic. The German chancellor also stiffened her





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position on the timeframe of Minsk accords implementation. She agrees with Ukraine that Kiev should take over control of the border section with Russia that is now controlled by the Donbas rebels and only then local elections in the occupied part of Ukraine should be organised. In the meantime, Moscow consistently sticks to the opposite. The order of events is important here since it will affect the course of the vote. Opinions are also very different on the war in Syria. Merkel rephrased Germany's very strict stance towards President Assad and voiced its opposition to Russian support for the regime. The chancellor's words that she considered

Russia partially responsible for air raid casualties were very strong.

Merkel's mentioning of Russia's internal affairs was a new element in the German-Russian relations that must have been an unpleasant surprise for Mr. Putin. The Kremlin is always allergic to such opinions from the West. Now, the German chancellor mentioned the anti-gay purge in Chechnya and repressive measures against the Jehovah's Witnesses all over Russia. Vladimir Putin responded in a manner typical for him saying that the mere asking the questions is an unjustified interference with Russia's internal processes.

10 May 2017

## PEACE THE RUSSIAN WAY

**The more details on Russia's plan to create security zones in Syria come to light, the more true appear original fears that the project's aim is to strengthen Moscow's ally, Bashar al-Assad. Yet again, this is a Russian political initiative which, rather than making peace in Syria, will more likely be used by the Kremlin as propaganda only. The Americans seem to share these concerns and delay a clear position on such zones.**



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Issues associated with the agreement are to be addressed on 10 May at the Washington meeting of US Secretary of State, Rex Tillerson, and Russia's Foreign Minister, Sergey Lavrov. The Chairman of the Joint Chiefs of Staff, Gen. Joseph Dunford, discussed the security zones with Valery Gerasimov, Chief of the General Staff of the Armed Forces of Russia, on 7 May. Still, many questions on various details remain unanswered, the Pentagon chief said on 8 May. Jim Mattis declared that the US will thoroughly examine the Russian proposal to create several so-called security zones in Syria. The defence secretary also said, however, that the plan fails to address many issues, like the exact locations of zone boundaries and who will be in charge of their security.

In fact, the latter question was answered on the very same day by Syria's foreign minister. Walid Muallem said that it would be Russian troops and not international forces under UN auspices that would oversee the ceasefire in zones created as a result of the agreement advocated by Moscow. Assad's top diplomat emphasised that Damascus will not agree to accept any other foreign forces to monitor the truce, humanitarian aid supplies and other

kinds of activities within the security zones. "The Russian guarantor clearly indicated that its military police and observational centres would be there", Muallem said.

While the Kremlin opposes deployment of the Blue Helmets to Syria, earlier this week it moved to the UN Security Council to pass a resolution in support of the agreement on security zones. The resolution's wording is currently negotiated by Council Members. Ultimately, the zones are to be created in early June. Syria's minister announced, however, that their creation will not prevent government forces from responding "resolutely" to any truce violation by the rebels. He already suggested that rebels might not adhere to the provisions of the agreement. Muallem added that his government expects that one of the first steps toward creation of security zones would be for "moderate" rebels to terminate cooperation with "extremists" and push them out of the zones. Otherwise, government aircraft will continue to strike within the zones. Of course, this is yet another of Assad's conditions which will be difficult to meet by the rebels, since they would have to engage in an open armed conflict with the more radical units. Even in the case of success,



the “moderate” forces would be weakened which is, of course, in the interests of the regime. Further, it is becoming increasingly clear that Assad is looking for any pretext to

continue, even if security zones and truce are agreed, to attack the rebels also within the zones.



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11 May 2017

## ZAPAD 2017 FEARS BALTIC STATES

**US administration responds to the expectations of its allies related to big joint military drills between Russia and Belarus, to take place in September. Lithuania, Latvia and Estonia expect provocations and warn of a possibility that large Russian troops will be moved to the west. The United States respond to such fears, as the chief of Pentagon confirmed during his visit in Vilnius.**

**O**n May 10, at a joint press conference with Lithuanian President, US Defense Secretary John Mattis stated that any buildup of Russian combat power close to the Baltic states destabilizes the situation in the region. He also assured that Washington would do everything to increase the feeling of security of its allies. Presumably the deployment of a Patriot missile battery in the region is one of such actions. Officially, this is connected

with NATO military exercise to be held this summer under the operation codenamed Tobruk Legacy. Patriots would be withdrawn after the NATO exercise, when the Zapad 2017 military drills begin in the neighboring Russia and Belarus. It cannot be ruled out, nevertheless, that if any worrying signs appear, Patriots will remain in the Baltic states a little longer. Lithuanian President Dalia Grybauskaitė said in February that Baltic



states would request the US and NATO to take additional steps to strengthen security in the region in view of the Zapad 2017 exercise. Currently, several small US and other allied subdivisions are stationed on the territory of Lithuania, Latvia and Estonia. International NATO battalions are also being created – one in each of the Baltic States.

Russia hasn't stated officially how many soldiers and how much equipment it intends to employ during the Zapad 2017 exercise. The scenario remains unknown too. However, Defense Minister Sergei Shoigu said that the scenario for the Zapad 2017 exercises would "take into account the situation linked to increased NATO activity along the borders of the Federal State". In late April, Estonian Defense Minister Margus Tsahkna warned that Zapad 2017 may be used by Moscow as a pretext to deploy its soldiers in Belarus permanently. This is suggested by the information obtained by Estonian and other NATO states services. When the dispute between Belarus and Russia over economic

matters got fiercer at the beginning of this year, rumors went round that Moscow may use Zapad 2017 to stage a coup against Alexander Lukashenko.

On the day when Mattis visited Vilnius it was announced that Lithuania's Border Guard Service has signed a contract to build a protective fence on the border of Kaliningrad oblast, a Russian enclave on the Baltic coast, between Poland and Lithuania. Lithuanian government is trying to seal the border, fearing provocation and the so called little green men getting into its territory as well as other methods of hybrid warfare. Surveillance systems are already operating on the water section of Lithuanian border (109 km along the Neman River). The planned 2-meter high fence is to be constructed along the land border of Lithuania, starting from the tri-border crossing between Lithuania, Russia and Poland (Vištytis), and further in the regions of Šakiai and Vilkaviškis. The structure is to be ready by 20 December 2017.

## 13 May 2017

# RUSSIA PLAYS A DOUBLE GAME

**On one hand Moscow argues that Sergey Lavrov's visit in the White House is a proof of increasing chances for a breakthrough in the recently rather low relations between Russia and the US, but on the other hand Moscow keeps provoking the US. Recently, there have been two air incidents with Russian aircrafts involved – this demonstrates what is Kremlin's actual political line towards the United States.**

Recently US ships and aircrafts have had to deal with repeated Russian provocations in international waters and the adjacent airspace. As we have written in Russia Monitor, the escalation of such actions is a result of Kremlin sharpening its policy towards the new US administration in response to Donald Trump's unwillingness to grant concessions to Russia and, generally, disappointment with the US policy. Even such alleged signals proving that bilateral relations

have improved (as claimed by the Kremlin), for example, the recent visit of Sergey Lavrov in Washington and his talks with Rex Tillerson and Donald Trump, do not change the situation.

On May 4, the Americans informed that a couple of days earlier two US F-22 Raptor stealth jets intercepted two Tu-95 Russian strategic bombers, accompanied by two Su-35 fighter jets. Russian planes appeared off the



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coast of Alaska. This has been yet another such case last month, but this time – the first time in several years – the bombers were accompanied by fighters. Four Russian aircrafts came as close as 80 km to the US border. They remained outside of the US airspace (it starts 20 km off the coast), but nevertheless deeply inside the zone of 320 kilometers, where Americans expect foreign airplanes to identify themselves. Gary Ross, a Pentagon spokesman, said that the US jets escorted the Russian bombers for 12 minutes, until the bombers reversed their course. Moscow replied that this was a “routine” flight above the neutral waters of the Pacific Ocean, along the Aleutians, in strict compliance with international regulations applicable to international airspace.

A much more serious incident occurred on May 9, over the Black Sea. A Russian jet came within merely 6 meters of a US Navy patrol aircraft that was conducting a routine flight in international airspace over the Black Sea.

Armed with six air-to-air missiles, the Su-35 fighter jet flew so close to the US P-8A Poseidon for about five minutes. Russian defense ministry informed that Su-30 performed a “greeting” maneuver at a “safe distance” to determine the aircraft’s type. It added that later the US aircraft “changed the flight route towards moving from the border with Russia”, and the Russian fighter jet safely returned to its base airfield. This was yet another such incident in this part of the world since Donald Trump took office: in February four Russian aircrafts buzzed an US warship in the Black Sea, from the distance of 91 meters. Now, the timing chosen for the provocation by the Russians was not accidental, just before Lavrov’s visit to the USA. It was the Victory Day, the anniversary of the the victory over Germans in 1945, celebrated by former Soviet republics. On that very day Vladimir Putin said at the Red Square that today the armed forces of Russia are strong enough to repel any potential aggression.

14 May 2017

# RUSSIA IS NOT WINNING THE CYBERWAR

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**Hackers sponsored by Moscow attack western democracies one by one during elections. After the USA (2016), there came time for France (May 2017), and now the UK is getting ready for such an attack (June), same as Germany (September). However, Russia is failing to reach its assumed objectives, but only forces the West to take more decisive steps and strengthen protection of its election networks and systems.**

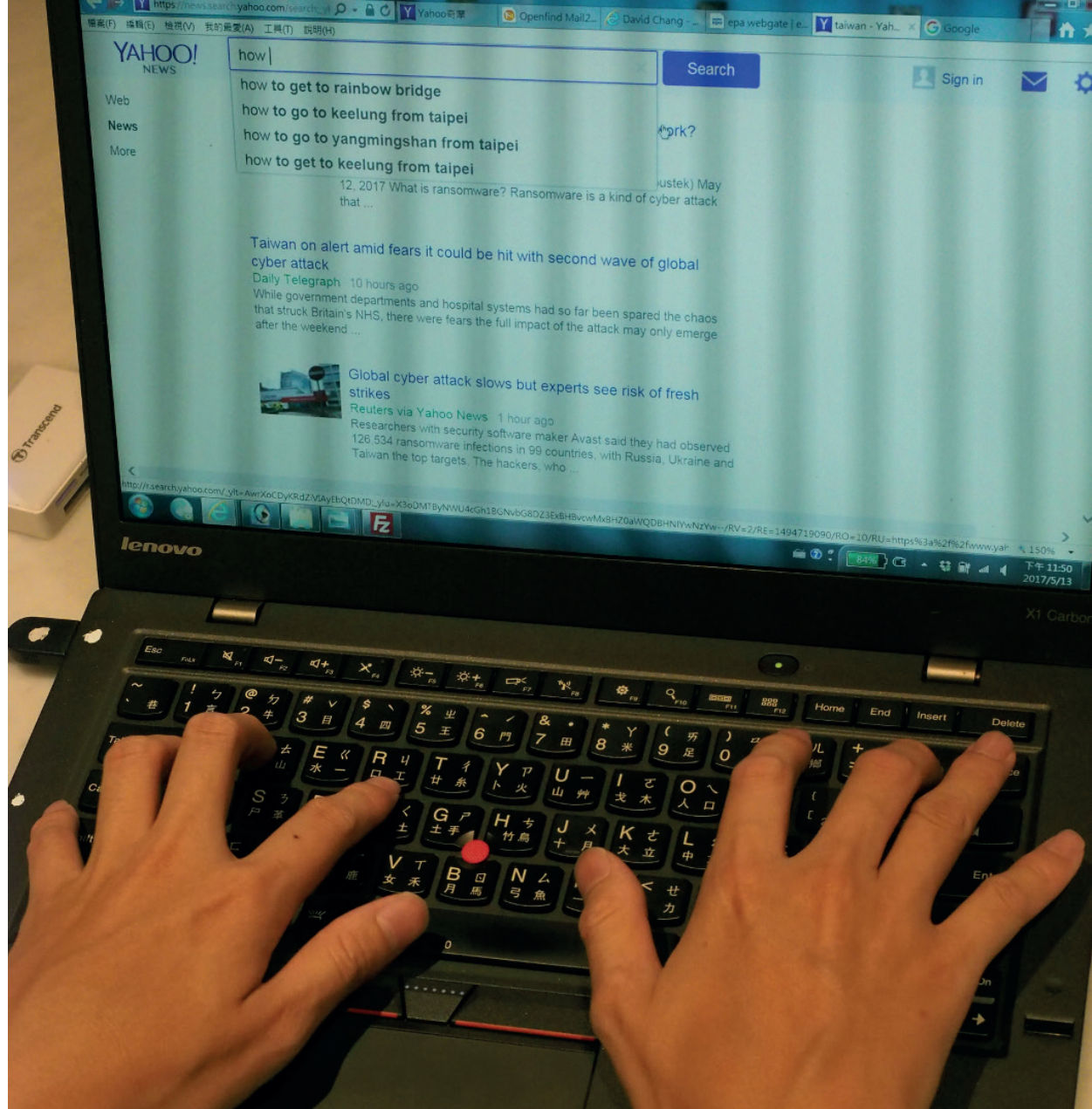
The US highest ranking official responsible for cyber safety informed that Washington warned French authorities during the recent elections in that country against Russian supported hackers penetrating computer networks in France. National Security Agency (NSA) Director and Chief of US Cyber Command Admiral Mike Rogers mentioned the fact on May 9, in the course of a hearing before the US Senate Armed Services Committee. It appears that Americans collaborated with their German partners and shared data with Paris. French authorities claimed that there were cyber attacks during presidential elections, both hacks and fake news, with Russians behind them. Main target of those attacks was Emmanuel Macron, the future winner in the presidential run, whose rival in the second round was Marine Le Pen, overtly sympathizing with Moscow and supported by the Kremlin. Two days before the second elections round in France, Americans observed Russians penetrating French computer networks and informed France about it, even before around nine gigabytes of documents and data, including financial data, stolen from Macron's election committee, leaked into the web.

On May 12, the chief of US Intelligence Community and Director for National Intelligence Daniel R. Coates, when addressing the Senate Intelligence Committee, warned that Russian cyber attacks are common and they pose a significant threat

for US government and key infrastructure. According to Coates, Moscow is using cyberspace to shape public opinion, also in Europe, in former Soviet states, and in Asia. CIA Director Michael Pompeo believes that Russia will renew such attacks at the time of US elections in 2018 and 2020, as well as during elections in other countries worldwide.

The aggressive policy of Russia in the domain of cyber security, all that server hacking, e-mail phishing, hoaxes and dissemination of fake news, has not brought success for Moscow. On the contrary, this encouraged western countries to increase cooperation, forced them to strengthen cyber protection, and last but not least, undermined their trust of the Russian partner. Such incidents will certainly not contribute to the sanctions imposed on Russia being lifted, quite the opposite. There is a real, not cold, war going on in the Internet, which also affects other areas, from economy and politics to military sphere. What's more, Putin has lost this battle, both in the USA and in France. In the United States, Russians "overdid it". Their aim was not at all the victory of unpredictable Trump; they only wanted to substantially weaken the mandate of Hillary Clinton. It was Trump who finally won, and now when everybody believes that Russians helped him to win, he cannot – even if he wanted – cooperate with Moscow. If he did, he would confirm the above accusations. In France Le Pen lost badly, and it is Berlin that is most happy about Macron's





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victory, and more specifically Angela Merkel, who is also preparing for massive Russian hacker and information attacks (we wrote about in Russia Monitor, see here).

Before German elections, however, there will be elections in the United Kingdom. On May 13, head of British diplomacy Boris Johnson warned about a “realistic possibility” that Russia may attempt to interfere in the June elections. In an interview published by “The Telegraph”, the conservative government minister added that Putin would rejoice at

the victory of Jeremy Corbyn’s Labor Party (known for its anti NATO views – editor’ comment). Johnson pointed out that Russia had attempted to influence election results in the USA and in France, but also in the Balkans (he meant the conspiracy in Montenegro). The interview was published a day after a massive cyber attack on British healthcare system. The following words of Johnson are worthy of special attention: “Putin wants to undermine faith in democracy and to discredit the whole democratic process”.



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16 May 2017

## ONE MORE VICTIM OF SECHIN

**The man frequently referred to as the second one after Putin, continues his aggressive business expansion. Using his political influence and his connections in special services, this time he's selected AFK Sistema holding as his target. Igor Sechin is building up the strength of Rosneft, the company that he is heading, at the expense of another Russian oligarch. This time however it's not about the assets, as Sistema is not a player on the oil and gas market. Instead Sechin wants to get a kind of protection money, since money is what Rosneft needs most today.**

**R**osneft and Bashneft filed a lawsuit against AFK Sistema. They are seeking 106.6 billion rubles, which Bashneft (taken over by Rosneft last year) allegedly lost when it was stripped of its assets by its former majority stakeholder. The case was registered on May 2 in Moscow Arbitration Court. However, on May 10, the court declined to hear the lawsuit, stating that it was a commercial dispute that should be examined at the place where the aggrieved party, i.e. Bashneft, is headquartered. This means that the proceedings will take place before the court in Ufa, the capital of the Republic of Bashkortostan, which is a part of Russian Federation.

AFK Sistema held a majority stake in Bashneft until 2014. However, in October 2014, following court's decision, 50.08% of shares in this oil company was seized by the state (Agency for State Property). 25% were held by the Republic of Bashkortostan. This "nationalization" was just a pretext invented so that Bashneft could be acquired by Rosneft, Russia's largest oil producer; the origins of Rosneft's might should be linked with its taking over the most precious assets of Yukos, more than decade ago. On October 12, 2016, Rosneft bought a controlling stake in the oil company from Bashkortostan for 329.7 rubles, and immediately replaced its entire management. Soon after that, it announced that it would audit Bashneft to explain the



reasons behind the high increase of its economic indicators. Rosneft's CEO, Igor Sechin, stated in turn that in 2013 Bashneft had sold its oil service assets twice below their market value (for 4 billion rubles). After having acquired the controlling stake in Bashneft, Sechin tempted Bashkortostan president with a place in Bashneft's management, as Bashkortostan hold a 25% blocking stake in Bashneft. In October, a draft amendment of the Act on the head of the Republic was filed in the Bashkir parliament (Kurultai) that would allow its president to accept Sechin's proposal. However, it has appeared now that the amendments will not be adopted.

When the news about the lawsuit became public, shares of Sistema lost almost 40% at Moscow stock exchange, and its capitalization dropped to 136 billion rubles. Vladimir Yevtushenko, who owns the controlling stake in the holding, lost 900 million dollars in one day (drop from 3.5 to 2.6 billion). Current lawsuit may be dangerous for Sistema, especially since the company has been attacked several times in the past and its owner was placed under arrest when the conflict around Bashneft sharpened. Yet

Sechin does not want to take over Sistema or to destroy it, but rather to get some "protection money". At the end of 2016 Sistema had 60 million rubles on its accounts. The lawsuit for over 100 billion rubles would force the company get into serious debt – even if finally it should win the case.

The situation is untypical and unprecedented: for the first time a lawsuit is filed not against the seller of shares (the state in the form of Agency for State Property), but against the shareholder who had hold said shares earlier. But the Russian law does not forbid filing a lawsuit against an entity that caused material damage, even if the petitioner had not concluded any agreements with the defendant. The lawsuit against Sistema is a subsequent stage in the very aggressive expansion of Rosneft whose CEO, Sechin, has considerable political influence, making him one of the most powerful men in the country. (We have written about it in Russia Monitor). In recent months he has had a series of successes, starting from the takeover of Bashneft and the elimination of the minister of economy (using his friends FSB generals to this end) and ending with winning the dispute with Ramazon Kadyrov about Chechen oil assets.

19 May 2017

## GUARDIANS OF MORALITY

**In State Duma, Russia's lower house of parliament, a special body will appear keeping guard on "moral climate in society". This will be the aim of the newly established Council for culture, religion and ethics, to be supervised by Duma chairman. The appointment of such a body confirms the will of current authorities to carry on their political struggle in the coming years along ideological axis, among others. Diverting people's attention from socio-economic problems and turning it to cultural, religious and ethnic issues is intended to mobilize the conservative electorate.**

**M**edia reports on the new council to be created in the lower house of parliament have been confirmed by Alexander Shchipkov, a voluntary adviser of Duma Speaker representing Russian Orthodox Church. The

new structure will work under Vyacheslav Volodin and it will focus on "moral climate in society" and on "prevention of extremism in the field of culture". Shchipkov informed about the Council being created at a meeting





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of the inter-party group for protection of Christian values. He added that when the idea of creating such a council only emerged it met with “hidden resistance”.

Currently, two councils operate under the chairman of Duma. The first deals with digital economy development, the second with urban development. The third council, however, will have a much more crucial importance, first of all political importance. The composition and structure of the new Council has not been defined so far. Only when this process is completed will it be possible to say more about the tasks and the role of this new body. However, at least three conclusions may be drawn from this information now.

First, the regime may impose its narrative in the year preceding presidential elections, with ideological struggle at the forefront. This is to mobilize Putin’s traditional electorate,

in particular the conservatively-minded provincial people. As we have written in Russia Monitor, one of key conditions for Putin to be re-elected it mobilizing his electorate.

Second, the principal director of this ideological war will most likely be Vyacheslav Volodin. He has proven to be an efficient political architect more than once in the past – for example in 2011, when he played a crucial role in devising the concept of “national unity front” and making Medvedev forget about his fantasies of being reelected.

Third, the Council may become the institutional link between the proverbial throne and altar. This time in the parliament, where the law is created. From the point of view of Orthodox Church – its leading role in the project may be assumed – it is important to continuously watch the legislative process.

21 May 2017

## MOSCOW IS WARNING CANADA

**Another country adopts a bill establishing sanctions against Russian officials who abuse human rights. Following in the footsteps of the United States and Britain, Canada is about to adopt its own version of the “Magnitsky-style” law. Moscow has already announced taking retaliatory measures.**



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**S**ergei Magnitsky was a Russian lawyer who discovered corruption (he accused officials of stealing 230 million dollars), was arrested and died in jail in 2009, badly beaten and deprived of medical assistance. Today, Magnitsky is still a symbol of human rights abuse in the Putin Russia. It is the Magnitsky case that western legislators refer to when adopting legal acts that establish sanctions against human rights violators in Russia and around the world. The United States were first to introduce such law (2012), followed last April by the UK. Now Canada will follow in their footsteps.

The government will support sanctions against state officials from Russia and from other countries who are found guilty of human-rights abuse, Canadian foreign affairs minister Chrystia Freeland announced on May 17. Canadian chief of diplomacy stated in the parliament that liberal government supports legislation broadening the range of penal measures that may be undertaken against foreign officials, including the seizure and freezing of their financial assets. One month earlier, the House of Commons foreign affairs committee urged the government to expand Canadian sanctions legislation to include human-rights abusers. The former

conservative government was reluctant to approach the issue. Current draft, to so-called Sergei Magnitsky Act, has wide support in the parliament and should be adopted easily.

This means that relations between Canada and Russia are bound to deteriorate – just recall Russian reaction to similar provisions introduced in other countries. Barak Obama administration and the US Congress adopted the Magnitsky Act in 2012. Russians responded by passing a law banning Americans from adopting Russian children (Dima Yakovlev Law). Moscow has already warned that it will take appropriate measures if Canadian parliament passes the Magnitsky Act. “We deplore this unfriendly move by the Canadian government, which will surely damage our bilateral relations and will not be left unanswered,” said a spokesman for the Russian Embassy in Ottawa. Russian Foreign Ministry has warned that Canada will be the “loser” if it enacts the legislation, for example it will miss out on business opportunities and joint “Arctic exploration”. Ottawa will most likely not care much about it, as Canada has for years been one of the western countries most critical about Russia. The two countries are natural rivals in the Arctic, and Canada, with its influential



Ukrainian diaspora, is one of the most ardent advocates of Kiev in its conflict with Russia. Personal issues are also of importance. Indeed, Chrystia Freeland is a trenchant critic of Kremlin's repressive internal policy. Earlier, when she worked as a journalist, she criticized Vladimir Putin harshly. When she took office,

the relations between Canada and Russia were bound to deteriorate. Freeland is one of western diplomats placed by Moscow on the list of sanctions in 2014, in revenge for the western sanctions against Russia for to the annexation of Crimea.



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21 May 2017

## PUTIN'S PRAETORIANS

**Russian National Guard is getting more and more powerful. This formation, established to protect Putin against all kinds of revolutions and putsches, gains more and more powers and keeps growing in number.**

**D**irector of Federal National Guard Troops Service of the Russian Federation, general Victor Zolotov, boasted that the number of Rosguard's soldiers and officers increased by almost 100% since the formation was established. Their exact number, however, remains unknown – it is state secret. Troops that became the base for establishing the Guard (internal troops, police special forces, and security forces) count around 400 thousand men in total. When Rosguard was

created, it was said that the formation will number around 350-400 thousand by 2018. It probably numbers a quarter of a million men already.

On May 17, it was officially announced that the government approved a list of facilities subject to obligatory protection by Rosguard. These include: buildings of the Bank of Russia, VTB Bank, and Vnesheconombank (a state owned corporation) in Moscow as well as



in Moscow Oblast and Sankt Petersburg, at the Crimea, in Sevastopol and in Chechnya. The obligation to protect public buildings is imposed on Rosguard by Article 6 of federal act on “National Guard of Russian Federation”. The list includes 37 items, i.a.: administrative buildings of Russia’s Supreme Court, Moscow City Court, the Supreme Court of Crimea in Simferopol, Sevastopol City Court, Prosecutor General’s Office, the Investigative Committee, and election commissions in Crimea and Chechnya.

A little earlier, it was announced that Rosguard would train IT specialist and experts in monitoring Internet social media

networks. On the other hand, it is known that the formation has at its disposal heavy weapons, but also equipment for quelling street demonstrations.

On April 5, 2016, Putin signed a decree based on which Federal National Guard Troops Service of the Russian Federation was established, composed initially of the units under the command of the Ministry of Internal Affairs, and popularly known as Rosguard. The formation is subordinate directly to the president, and its chief-in-command is the director of Federal Rosguard Service. In April, Victor Zolotov was appointed to this post.



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22 May 2017

## BOMBERS NOT TO ARRIVE?

Modernisation of the “atomic” part of the air force was to be one of the key elements of the ambitious modernisation plan of the military forces of the Russian Federation initiated a few years ago. However, like with other prominent projects (e.g. the Armata tank or the fifth generation PAK-FA fighter jet), also in this case the structural problems of the Russian defence industry are proving hard to overcome. This translates into considerable delays in production of new strategic bombers.

Russia is several years into its ambitious modernisation programme for strategic aircraft (bombers capable of carrying nuclear arms), now served by Tu-160 and Tu-95MS machines. Tu-160 is the largest and heaviest supersonic variable-sweep wing airplane ever flown in the history of military aviation. Known as the White Swan, it is a Soviet design. At present, 16 such aircraft manufactured in the late 80's of the 20th century continue to be in service. In May 2015, the air force command announced that they look to acquire as many as 50 new Tu-160. Preparations to launch serial production of such machines, known as Tu-160M2, are currently under way. Production is set to start in 2021. Tupolev's director general, Alexander Konyukhov, announced that the first Tu-160M2 test bomber will be ready in 2019. To modernise all old aircraft models and manufacture new ones at the same time seemed to be a very ambitious goal. However, it is becoming increasingly clear that the modernisation decision was taken because it was anticipated from the very beginning that the process of introducing new machines will be very time-consuming. It was initially assumed that modernisation of old bombers will be fully completed by 2019. Recently, however, deputy defence minister Yuriy Borisov admitted that there is no specific completion date. All that is known is that the old bombers will continue to be in service until the new Tu-160M2 machines are available. A similar development is expected with the other type of aircraft in Russia's

strategic forces, i.e. the Tu-95MS (Bear). These bombers are to be replaced by machines of an entirely new design, PAK-DA. This bomber has been in the pipeline since 2011, while the construction contract was awarded to Tupolev in 2014. According to original plans, this aircraft was to have its maiden flight in 2019 and would become part of regular service in 2023. However, also in this case significant delays have to be reckoned with.

All announcements to date, from modernisation of old machines to production of new ones, can hardly be regarded as realistic. The Russian defence industry has shown on many past occasions, that it has immense problems with keeping deadlines. The Kazan plant, where the Tu-160M2 is to be manufactured, needs as many as fifteen hundred more workers to rebuild its production lines; required modernisation can last even until 2020, and that only if the necessary funding is immediately available. There are also huge problems with the personnel. Production of the Tu-160 was discontinued a quarter of a century ago and today's personnel has no experience at all with projects of this kind. Some design work has to be started from scratch, because the breakdown of cooperation with the Ukrainians resulted in loss of a lot of technical documentation of certain aircraft elements. The manufacturer of engines for the Tu-160 has its own financial and technological problems, too.

23 May 2017

## MOSCOW SENDS MUSLIMS TO SYRIA

**Russian government consistently pursues the line adopted half a year ago and sends to Syria, first of all, soldiers who profess Islam. Troops of Muslims from Caucasus have stationed in Aleppo and Palmyra for months. Now – if we are to believe a Saudi newspaper – this contingent will be dramatically increased. This may be connected with the implementation of the so-called security zones.**



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The “Al-Watan” daily reports, citing “well-informed sources”, that Russia is planning to dispatch additional 60 thousand of Muslim soldiers to Syria, mostly from the North Caucasus. Some Sunni Muslim soldiers are currently stationed there, as part of Chechen police (Aleppo) and within the Turan battalion near Palmyra. The Saudi news is proven by the fact that it is in Syria where Moscow strives to go ahead with the plan of so called security zones. Judging by what Moscow has decided so far, it will be, first of all, Russian soldiers to protect the borders of such zones. And it would be best if it was done by Muslims – this should make the local community well disposed towards such soldiers.

Already in December 2016, a special unit of Military Police from Southern Military District, composed mostly of Chechens, was dispatched to Aleppo. This is a fist-class

battalion, made up of contract soldiers, predominantly former members of special task battalions Vostok and Zapad, as well as from “Kadyrovites” from other republic security forces. GRU special battalions Zapad and Vostok were created in 2003, under command of former rebels who switched to support Russia. In August 2008, Vostok Battalion participated in the Russian invasion of Georgia. Now Vostok and Zapad have been transformed into military police and are to guard Russian bases and troops. Someone in Moscow must have concluded that the very martial reputation of Chechens will increase the efficiency of those “gendarmes” – Syrian rebels would simply be afraid to fight with them. The activity of such units as well as potential loss that they may suffer are much easier to hide from public opinion than is the case for most troops of the line, considering the situation in the Republic of Chechnya and Ramazon Kadyrov’s dictatorial rule.





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23 May 2017

## ONE MORE AREA OF CONFRONTATION

**Moscow's attitude to North Korean nuclear crisis is consistent with the strategy of geo-political competition with the US, pursued by Kremlin. This is one more part of the world where Russians refuse to cooperate with Americans, on the contrary, Moscow questions the White House policy.**

**I**gnoring American appeals to isolate North Korea and force the regime to give up its nuclear ambitions, in May Moscow has launched a new sea connection, between Vladivostok and Rajin, with passenger and cargo ferry service, despite the fact that merely four days earlier, a ballistic missile fell in this region, as part of nuclear tests carried out by Kim Jong Un regime. Opening a sea route connecting Russia and North Korea right now is of negligible economic importance. Its political significance however is immense. Considering recent US declarations and actions taken against Pyongyang, Moscow's move should be viewed as challenging America; a demonstration that Russia has its own foreign policy and is a major world power. Especially, in view of change in Kremlin's rhetoric regarding North Korea.

Initially, Russians avoided the subject, but when Putin visited Beijing he accused the US of "intimidating" North Korea, and called for talks Russia makes it clear that it opposes any additional sanctions against Kim Jong Un regime.

At the beginning, however, Moscow adopted the wait-and-see attitude, probably because it was startled by the US – China agreement on actions vis-à-vis Pyongyang. In late April, residents of Russia's far east reported large military convoys travelling in the direction of the North Korean border. Presumably, the information flowing to Kremlin suggested that the outbreak of war was highly probable. Russia secured its border, but on diplomatic arena it acted with reserve. After the phone conversation with Donald Trump on May 2,

Kremlin reported that “Russian leader called for restraint and lowering the level of tension” on the Korean peninsula.

Now, once it is clear that Trump will not risk

a war, Russia has promptly attacked US for “escalating” the conflict. Putin wants North Korea to keep its role as a strong military buffer, separating Russia from American military bases in South Korea.



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24 May 2017

## A POTESKIN-STYLE LANDING OPERATION

The first “shock” units have been established in Russian Airborne Troops (VDV), boasted the command of this military branch, considered as the most elite one in the Armed Forces of the Russian Federation. In fact, however, this shows only the weakness of VDV. For some years, the landing troops have been presented as the main attack force in the Russian army. However, out of the 40 thousand VDV soldiers, not more than a few thousand satisfy the requirements for contingency forces, which are supposed to demonstrate Russian great military potential.

On 19-20 May, a meeting of Russian Airborne Troops commanders was held in the Pskov Oblast. Around two hundred generals and senior officers, commanders of VDV troops and units, participated in the meeting. The place was not selected at

random, as in Pskov the elite 76th Guards Air Assault Division is based, considered as the best unit of this kind.

At the meeting, general colonel Andrey Serdyukov announced that “shock” (assault)



units had been formed within troops under his command. Currently, these include first of all a tactical regimental group and a battalion-size tactical group in the Pskov VDV formation, as well as several battalion and company tactical groups in other formations, plus intelligence units. The shock units, Serdyukov assured, are “exemplary” in terms of modern weaponry and equipment, as well as personnel and training. Serdyukov presented this information to confirm that Russian Airborne Troops constantly improve their combat skills. He talked about plans for delivery of new weapons and equipment for the troops under his command, including first of all modern automated guidance systems, munitions and reconnaissance means. A massive military exercise with the use of this modern armament and special equipment is to take place in July on the grounds of Strugi Krasnye field training center (Pskov Oblast).

Earlier, general Ivan Buvalcev (from combat training headquarters of Russian Federation Armed Forces) had announced that the term “shock” units would be used for units with best combat skills in motorized and armored forces, in sea infantry, and also in the Russian Airborne Troops. For years, namely since

general Vladislav Shamanov, Serdyukov’s predecessor, took over the VDV command, the ambition of Russian generals has been to make such troops the core of Russian contingency forces. This is the precondition for Russia to have real possibilities of expanding its military activity and cutting down, as far as possible, the response time in the case of crisis and conflicts, at least in the post-Soviet area.

The problem is that selecting only some of troops as “shock” units means that the remaining 40 thousand soldiers of landing troops are not contingency forces. Serdyukov has de facto confirmed the existence of considerable differences in training and equipment within VDV. The tasks now assigned to the assault (“shock”) units should indeed be performed by the entire Airborne Troops. One may conclude that the condition of popular landing units, like that of a majority of the Armed Forces of the Russian Federation, leaves much to be desired and has nothing to do with political declarations that General Staff, Defense Ministry and leading Russian politicians have been making for at least the last few years.

26 May 2017

## GAZPROM FARING POORLY

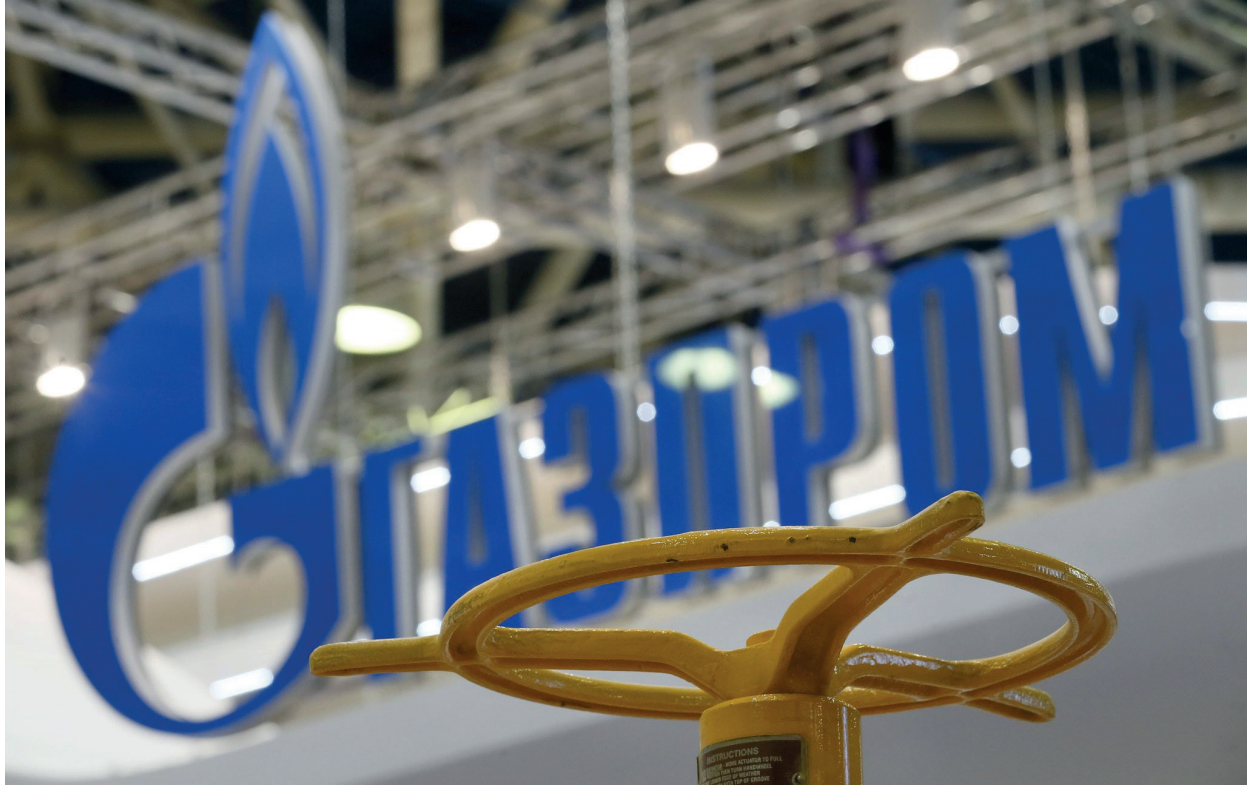
**Recent performance figures of the gas giant, both the official ones and those computed by market analysts, point to a durable financial slump of the company. Not only has Gazprom failed to attain any real profit in the whole of 2016, but also the first quarter of this year did not hint at a reversal of this negative trend.**

**T**he financial standing of Gazprom keeps deteriorating. This is down to several factors: declining gas prices, extraction at record lows and losses which keep growing despite the savings programmes approved on annual basis. In 2016, Gazprom’s financial reserves decreased from 1.359 trillion roubles to 896 billion roubles. Net profit in the first quarter of 2017 was 107.64 billion roubles,

meaning a drop by as much as 43 per cent versus the same period last year (when profit equalled 187.21 billion roubles).

The poor financial condition of Gazprom is confirmed by the matter of dividends. In late April, prime minister Dmitri Medvedev instructed companies with at least 50 per cent government ownership to allocate not less





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than 50 per cent of 2016 profit to dividend. The respective directive was issued on 24 April. But Gazprom avoided such a hefty charge and will pay only 20 per cent. That is even less than Rosneft which formally is not even a government company. It became clear that Gazprom will not pay 50 per cent when president Vladimir Putin said that the decision on dividend from the gas concern will reflect the real financial revenues of the company rather than results computed in line with international financial accounting standards. Noting that the company has profits “on paper”, Putin admitted what experts have already been suggesting: almost half of the reported profit of Gazprom for 2016 was virtual. This is because the company calculated its profits taking into consideration the fact that its currency debt (38.3 billion US dollars at year-end) decreased when translated into roubles. The currency exchange difference amounted to 456 billion roubles. When left out of the equation, the clear profit of Gazprom would fall by as much as 37 per cent.

While Gazprom managed to do fairly well on the domestic market, also by raising prices for customers, internationally it fared poorly. The currency income from international sales decreased by one fourth to the level of 31.2 billion US dollars, meaning worst performance since 2005. In addition, gas extraction could not be increased. It amounted to 420.1 million cubic metres, i.e. almost at previous year’s level which had already been the worst result in history. Over the last eight years, the company spent 320 billion US dollars on investments. These included mainly costly gas pipelines and projects that were high-risk but had geopolitical significance. For years, companies owned by friends of Mr. Putin have been the main beneficiaries of awarded contracts. Drainage of Gazprom’s resources is one of the main sources of income for such businessmen as the Rotenberg brothers, Kovalchuk, or Timchenko. While the wealth of the president’s people continues to grow year by year, production capabilities and pipeline throughput already exceed actual production and exports by 50-60 per cent.



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26 May 2017

## THE HUNT FOR CHUBAIS, PUTIN IS GETTING WEAKER

**There have been unexpected turns of events in the case of RUSNANO's managers accused of embezzlement. Several key themes of current Russian policy are combined here: the conflict between General Prosecutor's Office and Investigative Committee, the offensive of siloviki against the so called liberals, and the positioning of Putin before presidential elections. An attempt to counter the attack against Anatoly Chubais was a failure. This is yet another signal in recent months that Putin's position is getting weaker.**

**L**eonid Melamed belongs to the closest circle of Anatoly Chubais, the current head of a state-owned corporation RUSNANO. Melamed was RUSNANO's CEO and a member of its board of directors in 2007-2008. In July 2015, he was put under house arrest. According to the investigators, Melamed concluded contracts on behalf of RUSNANO with an investment/financial corporation Alemar that he co-owned. Alemar was to provide consultancy services to RUSNANO, worth 220 million rubles. The investigators, however, claim that the financial director of RUSNANO, Svyatoslav Ponurov, and its

deputy director general Andrei Malyshev, under the guise of making payments for such services, had "illegally siphoned off funds" from RUSNANO to the accounts of the company owned by Melamed and his partners. Melamed pleads innocent. Chubais has also defended his subordinates from the start. Nevertheless, the Melamed's case was promptly interpreted as an attack targeting RUSNANO's director general.

Now, after a year and a half, General Prosecutor's Office has informed about having referred the case to the Investigative

Committee for further investigation. Victor Grin, a deputy of prosecutor general Yury Chaika says that this is due to “flagrant violations of criminal procedural law”. Melamed and Ponurov regain their freedom. Is it a victory of Chubais? Not yet. On the very same day, a new message comes from General Prosecutor’s Office: Chaika has changed the decision of his deputy and has referred the case to the court after all. The very same mechanism operates here as in other famous cases where politics meet business, such as for example the case of former governor of the Kirov region Nikita Belykh, or the case of former minister of economic development Alexey Ulyukaev. What do they have in common with Chubais? They belong to the so called liberals, whose influence keeps diminishing since 2014 – the siloviki prevail. In this context, Grin’s move, discrediting investigators’ narrative in Melamed’s case, came as a surprise. Grin is not independent; he always does what his superior tells him to do. He must have followed Chaika’s orders. Conflict between the chief of prosecutor’s office and the chief of Investigative Committee has lasted for years. However, Chaika would not strike such a spectacular blow without Putin’s consent. President, in turn, could have been influenced by one of Melamed’s defenders, namely Sergey Kiriyenko, former prime minister and former head of Rosatom,

who has recently become one of the most influential figures in the Kremlin.

So, what happened that despite a green light from the president, Chaika changed the course of Melamed’s case in less than a day? Someone must have intervened, someone so powerful that chief prosecutor took a risk of upsetting Putin. Or maybe it was president who changed his mind under somebody’s influence – maybe under the influence of Igor Sechin. This is a warning signal not only for Chubais but also for Putin. It turns out once again that Putin is no longer an absolute ruler and that more and more often he must take into account the siloviki’s opinion. This was evident in the case of Ulyukaev or in the conflict between Sechin and Kadyrov. President is losing power, because he is getting increasingly dependent on one wing of the ruling elite. The almost absolute power that Putin once enjoyed was based on several pillars and on playing out with different political fractions and clans. Today it has become clear that Putin is no longer the highest instance in “family” disputes among “Putinocracy”. This, in turn, increases the risk of violent actions in external policy and at the same time promises an aggressive internal policy course before the presidential elections. And Putin still hasn’t declared if he would run for the office.

27 May 2017

## ESTONIA EXPELS RUSSIAN DIPLOMATS

**Russian consul general and another consul in the town of Narva must leave Estonia by the end of May. The government in Tallinn give no reasons for declaring the two Russians as personae non gratae. An adequate response from Moscow is to be expected: expelling two Estonian diplomats of a similar rank. This has been another recent incident demonstrating that relations between Estonia and Russia are tense.**

**O**n May 26, the Estonian foreign ministry informed that consul general of Russian Federation in Narva Dmitry Kazennov and

consul Sergei Surgaev must leave Estonia. Russian ambassador to Tallinn explained later that the two diplomats would have to





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leave by the end of May. The Estonians did not give any reasons for this decision. Russian foreign ministry described the expulsion of two diplomats employed in Consulate General of Russian Federation as “one more unfriendly and groundless action that will not go unanswered”. This means that two Estonian consuls will be expelled from Russia.

Narva is a border town, dominated by Russian-speaking migrant population. Estonians make up a mere 4% of its inhabitants. Such proportion is typical for many other towns in northeastern Estonia (in particular in the Ida-Virumaa region) – this is a result of Soviet colonization at the time communism. Comers from other parts of the USSR would settle in the most industrialized part of Estonia.

The expulsion of Russian diplomats may be connected with the tense situation around the monument commemorating Soviet airmen, located on a private plot in the town of Kiviõli, west of Narva. At night on May 15, the monument was again devastated by hooligans. On May 18, Russian foreign ministry spokeswoman Maria Zakharova released a very definitive statement about the fact. Subsequently, consuls Kazennov and Surgaev met with Kiviõli's Mayor Nikolay

Voyeykin and tried to persuade him to move the monument from the private grounds to the municipal cemetery. The reason why Russians were given a note demanding them to leave Estonia was not the very fact of this conversation but the anti-Estonian rhetoric used by the Russians in its course – the conversation was allegedly recorded and the recording fell into the hands of Estonian authorities.

Estonian government and intelligence are highly sensitive to all historical issues that may be used by Moscow for political purposes. They still remember the war over the so called Bronze Soldier, in the spring of 2007. Relocation of the monument commemorating Soviet soldiers from the center of Estonian capital to a military burial grounds gave Moscow a pretext to trigger a wave of riots in Estonia (there were fatalities), a cyber attack on Estonian government and financial webpages, as well as a diplomatic conflict. Moreover, Tallinn is now scared of subversive actions of Russia that may be related to the approaching large military exercise Zapad 2017. Estonian counterintelligence is very busy. In May, a Russian national was convicted by the court for five years in prison, charged with spying for Moscow. This may be the GRU spy who was caught in January. In 2016, two



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29 May 2017

## MOSCOW'S EYE IN THE HEART OF ABKHAZIA

**Russia continues its creeping annexation of Georgian territories, even though in 2008 it recognized them as independent states. Despite the protests of Tbilisi government and of Abkhazian opposition, a new body has been created in Sukhumi. It is formally a joint body – Russian and Abkhazian – but in fact it is fully controlled by Moscow. It will allow Moscow to more effectively govern Abkhazia, where, unlike in South Ossetia, there exist strong opposition and pro-independence sentiments.**

**I**nterior ministries of Russia and of separatist Abkhazia have signed an agreement establishing a joint “Information and Coordination Center” on the territory of this unrecognized republic, with the aim to help counteract organized crime. This not only sparked protests in Tbilisi but also upset the Abkhazian opposition. The day before the agreement with the Russians was to be signed, 15 out of 35 deputies of the recently elected parliament officially appealed to president Raoul Khajimba and to deputy prime minister Aslan Kobakhia to postpone the

signing ceremony and change the text of the agreement. The deputies wanted to introduce a provision giving the parliament more control over Center’s activity. Nevertheless, on May 18, in the the city of Sochi, Kobakhia and Russia’s deputy interior minister Igor Zubov, signed the agreement, just as they had planned.

The agreement establishing the Center is part of the treaty on “the alliance and strategic partnership” signed by Putin and Khajimba back in 2014. For Georgia, this is yet another



step confirming the actual annexation of Abkhazia by Russia. Moscow wants to use the Center to control Abkhazia more effectively. The true aims of the Center are different than declared. This is proved by the high number of staff; 10 persons from each side. The Center, in practice, will not be controlled by Abkhazian authorities at all. Article 10 of the agreement states that Russia and Abkhazia will finance the Center jointly, whereas in article 24, it is declared that the Center will be financed by Russia. The Center, moreover, is obliged to

submit, once a year, a list of its expenses to the ministry of finance of Abkhazia and to Russian ministry of North Caucasus affairs. The agreement grants diplomatic immunity to Russian employees of the Center and their families.

The way the agreement was proceeded, the fact that it was secret, as well as the conditions of Center's functioning indicate that it may be a center of Russian special services, which could control separatists more effectively.



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29 May 2017

## USA IS TAKING A FIRM STANCE AGAINST RUSSIA

Russia, next to Iran, is one of the countries most strongly dissatisfied with Trump's first foreign trip. The NATO and G-7 summits as well as the signals coming from Washington promise more problems for Moscow. The controversies and investigations regarding the contacts of the US president's team with the Russians have no impact on Trump's policy towards Moscow.

**U**SA considers it necessary to continue exerting pressure on Russia because

of Russian actions in Crimea and eastern Ukraine, said Donald Trump in a conversation



with Italian prime minister Paolo Gentolini before the NATO and G-7 summits. The US president reaffirmed the firm stance towards Moscow, common with the EU. The Americans emphasize the importance of convincing Russia to fulfil its commitments under the Minsk agreements. During his visit at the NATO headquarters on May 25, for the first time since taking presidential office, Trump called Russia a “threat” against which the USA and its NATO allies should unite. President said that “the NATO of the future must include a great focus on (...) threats from Russia and on NATO’s eastern and southern borders”. Trump emphasized that the alliance must be tough, strong and vigilant, and he called once more for an increase in defense expenditure.

As might have been expected, Moscow is critical of the NATO’s plans. On May 26, Russian Foreign Ministry stated that measures aimed at reinforcing NATO’s eastern flank are eroding the provisions of the Founding Act signed by Russia and NATO in 1997. Moscow interpreted permanent stationing of NATO combat forces, “irrespective of their objectives, as permanent stationing” adding that „it does not matter that personnel will be deployed there on a rotational basis”. On the other hand, NATO’s plans to increase defense expenditure are presented by the Russians as a promise of a huge cash injection for the US arms industry, which – as announced by Russian ambassador to NATO Alexandr Grushko – will be the principal beneficiary when Europeans will be buying American weapons.

Regardless of NATO or the EU, the political course adopted by USA is getting sharper. On May 25, the chairman of Senate foreign relations committee Bob Corker announced that this summer the committee will review a draft bill imposing new sanctions on Russia for meddling in presidential elections in 2016. The committee will start working on the draft bill after an update on the issue has been presented by the secretary of state. In the coming weeks, Rex Tillerson will update senators on the policy of Trump’s administration towards Russia and on the developments in Syria. Members of the Senate foreign relations committee have already supported a draft bill, which provides for the establishment of a special fund to “protect infrastructure and election systems of critical importance” against aggressive actions taken by Russia. 250 million USD is to be spent for this purpose in 2018 and 2019. Some of this amount will be used to support those NATO and UE members who have no such funds. It is important to note that the draft bill provides for using some of these money to support Ukraine and Georgia.

On the other hand, on May 26, some important words were uttered by Trump’s chief economic adviser. Gary Cohn announced that US administration does not intend to lift the sanctions imposed on Russia, or to make them less severe. On the contrary, it cannot be ruled out that new, even more severe sanctions will soon be imposed on Moscow.



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29 May 2017

## NAVALNY REVEALS CORRUPTION (ONCE AGAIN)

**The Anti-corruption Foundation of Alexei Navalny published new discrediting information about the ruling elite, business, and corruptive links between them. This time it is about companies owned by a billionaire Yevgeny Prigozhin and their contracts awarded by Defense Ministry. It remains unclear how this matter will be played out within the ruling elite, but it may potentially harm the minister of defense Sergey Shoygu, whose political position may be perceived as as a threat by other interest groups.**

**P**rigozhin is a restaurant magnate, who established close contacts with the current ruling elite already in the 1990s, when he provided catering services in Sankt Petersburg. At that time, he also got to know Vladimir Putin well. Today, Prigozhin's companies are making a fortune on contracts from federal authorities. Prigozhin's cartel made over 400 million dollars just from collaboration with the Ministry of Defense, according to Navalny's foundation report.

The businessman made money, among others, from providing housing and communal services in military towns. It has been

established there are subsidiaries of Prigozhin's companies on military sites (including ASP company, operating in a Russian military base in Armenia). Some of such companies, moreover, do not have a license to carry out business in areas classified as state secret, which did not prevent officials from the Ministry of Defense from contracting them. At the beginning of such cooperation, there was just one company, namely Megaline. Later, more companies emerged and they were awarded contracts (i.a. companies Ekobalt and Komponent). Four other companies associated with Prigozhin obtained lucrative contracts – all on the same day – from the Ministry for

Emergency Situations. According to Navalny, a financial scheme was launched: when a company was awarded a contract, it would transfer the money to another company, to be used to obtain another contract. Navalny gained much of that information from analyzing earlier proceedings conducted by Antimonopoly Services, which had established that the companies submitted applications from the same IP address, registered for a company owned by Prigozhin's mother. All the companies used e-mail addresses registered in the same domain. The proceedings instituted by Antimonopoly Services began last August, and it should soon be over. The Anti-corruption Foundation (AFC) claims that Prigozhin, considered as a Putin's favorite, profited from several more such schemes.

He has already obtained contracts worth 3.2 billion dollars in total.

The information disclosed by Navalny hit first of all businessman associated with Putin. Yet also the officials, first of all from Defense Ministry, may be required to give explanations. This may prove politically disadvantageous for the incumbent minister Sergey Shoygu. It is noteworthy that this is yet another report published by Navalny foundation that reveals corruption schemes in political circles competitive for the siloviki, originating in special services. Despite recent problems with his opposition activity, Navalny continues, and will probably continue, to play a significant role in internal games between Russian top government officials.

30 May 2017

## MOLDOVA EXPELS RUSSIAN DIPLOMATS

**A conflict between the government of Moldova and Russia has been growing for months. Expelling as many as five diplomats from the Russian embassy in Chisinau means that the conflict is getting fiercer. Its internal dimension is also significant: competition between Moldova's West-leaning government and its pro-Russian president.**

**T**he ambassador of the Russian Federation in Chisinau, Farit Mukhametshin informed on May 29 that five Russian embassy employees were declared "undesirable persons". The five were given 24 hours to leave the country. That was what the ambassador said; in fact they were to leave Moldova in 72 hours. On the very same day, Russian deputy foreign minister Grigory Karasin promised a "tough" response to Moldova's move, calling it "a rude provocation, a blow at those forces in Moldova led by President Igor Dodon, who are really calling for normalizing and invigorating the bilateral relationship with Russia".

The expulsion of Russian diplomats may be linked to the accusations against a former

Moldovan MP Yury Bolbochan, who had allegedly passed state secrets to the military attaché of the Russian Federation. Yury Bolbochan was arrested on March 19 and charged with treason. A video had been published of his meeting with Russian military attaché Alexander Grudin. When Bolbochan's house was searched, they found 23 thousand US dollars and a mobile phone used by him exclusively for contacting Grudin. Relations between Moldova and Russia have been constantly deteriorating since last fall, when Igor Dodon was elected president. Moscow started to support that politician, thus forcing the government and the parliament to take a more pro-Western stance. In early March, the head of Moldavian parliament Andrian Candu and prime minister Pavel Filip announced that





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all the official visits to Russia were cancelled. In the preceding months, several Moldavian officials and MPs had been detained on the Russian territory and questioned. Chisinau sent a note about it to Moscow, but to no avail.

Dodon criticizes all the anti-Moscow actions that the government undertakes. In Chisinau, the conflict between the government, the parliament and the president is growing. The alternative for the current corrupt government, with an oligarch Vlad

Plahotniuc de facto holding absolute power in the country, is an anti-western and thus pro-Russian government. It is therefore not surprising that western embassies in Chisinau have decided that it makes no sense at the moment to abandon the present government of Moldova, since after the elections not much would change in the style of rule anyway, and Moldova instead of maintaining its pro-European course would fall back into the grip of Russia.

30 May 2017

## CREATIVE ACCOUNTING OF ENERGY CHAMPIONS

**Russian economy is experiencing a crisis, incomes of ordinary citizens are falling, there is not enough money for the planned expenses, and reserve funds are diminishing dangerously fast. In some companies, however, the crisis seems non-existent, quite the opposite. With political acceptance from the very top, Gazprom and Rosneft reduce their payments to federal budget and at the same time pay out huge bonuses to their bosses, appointed by the president.**

**M**embers of Gazprom's board of directors are to receive as much as 245 million roubles (over 4 million dollars) as a bonus

for company's results in July 2016 – June 2017, 23% more last year. Rosneft has beaten Gazprom: it announced that it was ready to



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pay 1.5 billion roubles (26.5 million dollars) to its management board – not for the entire year, just for a quarter. These amounts outraged some Duma deputies. However, the most interesting issue in the case of Gazprom and Rosneft are the dividends. In 2016, it was decided that the state-owned company should pay-out half of its net profit. The amount can be calculated in two ways: according to Russian accounting principles or to international standards. The government decided that dividends will be paid based on the higher amount, calculated in the second way. In May, however, president announced that the consolidated profit of Gazprom calculated according to international accounting standards is mostly paper profit, and thus the government should calculate dividends based on the company's real profit. This means that less money will go to the budget.

Rosneft pays no dividend at all to the budget, but accumulates it in Rosneftegaz, which manages large blocks of shares of Gazprom, Rosneft and Inter RAO. Rosneftegaz is 100% state owned. Its sole function so far has been to transfer dividends on shares of energy giants to the budget. The government information that in 2016 the company

recorded a loss of 90.4 billion roubles and no dividend is foreseen came as a surprise. Right after, a news appeared in the media that Rosneftegaz published a release stating that in 2016 its income equaled 596 billion roubles. This success, however, was discredited by a single decision – on transferring to federal budget the 692.4 billion roubles obtained from the sale of 19.5% of Rosneft's stock. Rosneft's management is planning to pay themselves huge bonuses on account of the very same deal, justifying them with "special achievements", namely the acquisition of Bashneft and the sale of own stock to a foreign investor, despite current sanctions against Russia. Yet, the real financial result of the concern is poor. In 2016, Rosneft's net profit was half of that in 2015 (181 billion roubles). And the acquisition of Bashneft can hardly be considered a good deal, since the company had earlier been striped of its best assets (that is the reason for the lawsuit against AFK Sistema).

Where then such impudence of the managers of both energy giants come from? Gazprom is de facto the Kremlin's tool and it plays an important role in foreign policy. On the other hand, Rosneft (as well as the board of directors of Rosneftegaz) is headed by Igor Sechin,



known for having embodied to perfection the idea of Russian privatization – not of

individual companies, as at the time of Yeltsin, but of the entire state.



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31 May 2017

## THE SUCCESSION MYSTERY

**Vladimir Putin has still not revealed whether he will stand in the presidential elections in March 2018. His silence gives rise to a growing number of rumours about the president's health and speculations that he might opt for the "Yeltsin scenario" after all. This would mean picking a carefully selected candidate to ensure that the president and his allies remain untouchable.**

Uncertainty as to the future of the Kremlin host is not good for the country. The entire bureaucratic machine came to a standstill in anticipation of how events will unfold. Officials in various institutions rarely plan beyond the end of this year. The longer the state of uncertainty continues, the worse for Russia. During a recent summit in Beijing, Putin was asked if it wasn't about time to reveal election plans. The answer was brief: "No". Putin is reluctant to talk about the issue and avoids it. His entourage does the same. This only reinforces rumours about the

president's health problems (on 7 October, he will turn 65).

Under these circumstances, the question of a successor emerges. PM Dmitri Medvedev and the governor of Tula, Alexey Dyumin (former commander of the special operation forces of Russia's army, and previously Putin's security officer) seem to be favourites. The names of Sergei Ivanov, Sergey Shoygu, Sergey Lavrov, Vyacheslav Volodin, Yuri Trutniev, Anton Vaino, and Sergey Kiriyenko are also mentioned. The last two, the president's



head and deputy head of administration, respectively, however, appear rather destined for the prime minister post.

But if Putin were indeed to replay the scenario once used by Boris Yeltsin, it would be natural for the future president to be first appointed prime minister. In this context, Vaino emerges more and more as the frontrunner. He enjoys support of the Rotenberg brothers and Sergey Chemezov. Who is the current head of the president's administration (since August 2016)? Anton Vaino was born in 1972 in a family of Estonian communists. In 1978-1988, his grandfather, Karl Vaino, was head of the Estonian Communist Party. Anton graduated from the MGIMO (university considered as forge of government staff) and served

as a diplomat. He worked as attaché in the embassy in Tokyo (1996-2001). Member of the president's administration staff since 2002, concerned with international cooperation. He followed Putin to the government and returned to the Kremlin in 2012 as deputy head of the president's administration. Vaino also served as Putin's chief of protocol. It would be hard to find anyone who would be closer to the president. The president's head of administration was responsible for take-over of responsibilities by Putin in the power structures already on two occasions: firstly, when he was relocating from the Kremlin to the White House (seat of Russian government) in 2008, and secondly when he made the opposite move back to the Kremlin in 2012.

31 May 2017

## PUTIN'S STALINIST GUARD

**When establishment of the Russian National Guard was decided, references included American models. However, the Russian Guard rather resembles the Stalinist formation used to suppress behind-the-front areas during the last world war. The NKVD of that time and today's National Guard have two common features: their enemy is domestic and they serve the leader and not the state.**

**A**s reported by Russian media, the National Guard will in its units restore distinctions awarded in NKVD's domestic troops during World War II. There will also be names evoking these times. One of the units is to be named after Felix Dzerzhinsky. Also the military academy in Saratov is to get back its old name (Dzerzhinsky Military Institute in Saratov honoured with the Order of the Red Banner). Dzerzhinsky was added to the name of the academy in 1966 and remained there until 1997. Dzerzhinsky was a comrade of Lenin, Stalin, and Trotsky, founder and first chief of the Bolshevik terror apparatus. In 1917-1926, initially he was head of the All-Russian Emergency Commission for Combating Counter-Revolution and Sabotage (Cheka), and later, after its reorganisation, of

the State Political Directorate (GPU) and Joint State Political Directorate (OGPU).

Putin has always feared a so-called colour revolution. This is even mentioned as one of the main threats in the Russian Federation's strategic documents. The National Guard, with a target headcount as high as 400,000, is to be the miracle cure for a revolt. The Russian Guard is a new power structure set up by president's decree dated 5 April 2016 on the basis of the Internal Ministry's domestic troops. The formation reports to the president directly and is headed by the director of the federal Russian Guard service. Viktor Zolotov, formerly Putin's security boss for many years, was appointed to this position.



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Who can Putin rely on in the case of an attempted coup? Two elite military divisions are stationed on the outskirts of Moscow: the 2nd Guards Tamanskaya Motor Rifle Division and the 4th Guards Kantemirovskaya Tank Division. In total, 20,000 soldiers. The Kremlin itself is protected by the Kremlin Regiment of the Federal Protective Service (5,500 strong). The National Guard means another 20,000 troops in Moscow, in addition to the elite

1st Dzerzhinsky Independent Special Purpose Division from Balashikha), 35,000 men of former Interior Troops (including the 21st Independent Spetsnaz Brigade and the 604th Spetsnaz Centre), and 35,000 from OMON units. This means that only in and around Moscow Putin has 80,000 armed men at his disposal. The problem is he cannot be sure if all of them are loyal. The National Guard is aimed to address precisely that problem.

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