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RUSSIA AND PAKISTAN TO STRENGTHEN COOPERATION

In addition to its increased activity in Afghanistan, Moscow keeps improving relations with Pakistan, its Cold War era foe. Worse relations between Islamabad and Washington mean warmer ties of the former with Moscow. Both countries have recently enhanced their cooperation in security matters, which constitutes a threat to American and Western interests in Afghanistan, the country still being overwhelmed by civil war.

Due to such situations as a visit of a delegation of high military and special services representatives in Moscow, participation of the defence minister in the international security conference in the Russian capital, talks on energy cooperation and purchases of Russian weapons, as well as joint military exercises, Pakistan clearly strengthens its relations with Russia. Such an attitude constitutes a part of Islamabad's attempt to diversify international contacts after a failure of its alliance with the United States. The cooling in relations between both countries may give some advantages to such countries as China and Russia.

The thaw began in 2014, when both countries signed a bilateral defence cooperation agreement aimed at strengthening military-to-military relations during the visit by Russian defence minister to Islamabad. As a result, Pakistan purchased four Russian MI-35 helicopters. While the United States was gradually closing its military assistance program for Pakistan, Russia lifted an embargo on weapons deliveries to Islamabad, thus Moscow could offer helicopters and other types of weapons. One can also notice the Pakistani-Russian rapprochement regarding their views on Afghanistan Pakistani Minister for Defence Khurram Dastgir Khan has recently paid a visit to Moscow to participate in Moscow Security Conference. He emphasised that he perceived the growing Russian engagement in Russia as an important factor that could potentially be used to promote peace and counteract terrorism. In 2016 and 2017 respectively, special forces of both countries carried out joint military exercises. Similar drills are also supposed to take place this year. Moreover, Russia and Pakistan have also discussed some strategic energy deals worth billions of dollars. Moscow will also build a gas pipeline from southern port city of Karachi to Lahore.

On April 22-23, Russia and Pakistan held the first bilateral talks at the level of both countries' national security advisers. The Russian delegation was led by Secretary of the Russian Federation Security Council Nikolai Patrushev whereas the Pakistani one was headed by his counterpart, National Security Adviser Nasser Khan Janjua. The Pakistani delegation included representatives of the army, special services and the institution responsible for supervision of the state's nuclear assets (Strategic Plans Divisions). During the two-day meeting, both parties conducted talks over closer cooperation in the fields of defence, space, cyberspace, nuclear questions as well as intelligence-sharing. The visit of the Pakistani delegation to Moscow including Chief of Army Staff of the Pakistan Army General Qamar Javed Bajwa coincided with the departure of the Russian delegation to Pakistan, where representatives of both countries discussed their economic relations.

8 May 2018

QATAR SAVES ROSNEFT FROM CHINESE FIASCO

State fund of Qatar decided to buy almost 19 percent of Rosneft shares after the failed attempt of selling them to a company from China. Even though Russia will portray this as a success and beginning of strategic involvement of Qatar into Russian gas-oil market, the transaction was induced mainly by the necessity of finalisation the financial operation which had started yet in December 2016.

A consortium Glencore and QIA (Qatar Investment Authority) terminated an agreement with a Chinese company CEFC on selling 14.16% of Rosneft shares. A package which was to be bought by the Chinese is eventually passed to the Qatari and the consortium is dissolved.

The consortium – QHG Oil Ventures – was formed in 2016 by a Swiss Glencore trader and a Qatari QIA state investment fund. They possessed half of shares each. At the end of 2016, within the partial privatisation of the Russian Rosneft company, QHG bought 19.5% of its shares for 10.2 bln euro. But the consortium paid only 2.8 bln euro from their own budget (QIA 2.5 bln euro, Glencore 0.3 bln euro) and the remaining 7.4 bln euro were provided as a credit by an Italian bank Intesa Sanpaolo (5.2 bln euro) jointly with Russian banks (2.2 bln euro), Gazprombank, among others. In September 2017, it turned out that QHG agreed on selling 14.16% of Rosneft shares to the Chinese company CEFC China Energy for 9.1 bln dollars. Chief of Rosneft Igor Sechin portrayed it as a big event – direct involvement of the company from the key for Russian hydrocarbons Chinese market into the production of this material. After the transaction, CEFC would have 14.16% of Rosneft shares, QIA 4.7% and Glencore 0.5%. Everything was to be finalized till the end of 2017. Then, the deadline was extended for a couple of months as it turned out that CEFC had problems with gaining money for the purchase of Russian company's shares. Russian banks were able to provide part of resources, but in Chinese ones the company had already

SOURCE: KREMLIN.RU

had huge debts, whereas foreign banks were not accessible due to sanctions imposed on Rosneft. What is worse, chief of CEFC Ye Jianming become suspected of committing economic crimes. He was detained in March 2018 and his business empire has begun to collapse. CEFC falls behind with payments for employees and plans huge job reductions.

In such a situation QHG Oil Ventures terminated an agreement with CEFC on selling 14.16% of Rosneft. The Chinese were replaced by the daughter company QIA. It bought 14.16% of Rosneft from QHG, which was dissolved. The Qatari paid 4.7 bln euro, which will cover consortium's debts in banks. Then, the consortium will be dissolved. Remaining 5.34% from the Rosneft package owned by the consortium is divided between shareholders according to their financial contributions in December 2016: Glencore gets 0.57%, and QIA gets 4.77%. As a result, Qatar, through its investment fund, becomes an owner of 18.93% of shares of the biggest Russian oil company, the third shareholder in terms of share possession (state-owned Rosneftegaz has over 50% and British BP – 19.75%).

Qatari fund buys Rosneft's shares due to problems with the transaction with the Chinese. Such a possibility was probably already being discussed during the visit of Emir of Qatar Sheikh Tamim bin Hamad Al Thani in Moscow on March 26. He met with Putin and talks behind closed doors lasted 3 hours. Rosneft and Qatari Qatar Foundation state fund signed an agreement on strategic partnership. On March 29, Sechin flew to Doha where he was hosted by Emir. Chief of Rosneft talked also with members of Qatari government and board of Qatar Petroleum company. Sechin opened also a branch of Rosneft in Qatar. It is possible that the Qatari's decision on strategic entrance into Rosneft is connected with their plans of involvement into LNG projects in Russia. But the question is whether Qatar is really willing to engage into Russian market. It will not be easy to sell Rosneft's shares. They are expensive and do not provide any rights to administer. The company is sanctioned and seriously indebted. Market value of Rosneft is estimated at only USD 65 bln, despite the fact that it produces more oil that American ExxonMobil, worth USD 324 billion.

11 May 2018

TEMPORARY GOVERNMENT: MEDVEDEV AND HIS DEPUTIES

As expected, the new Russian government will consist of majorly the same people as the old one; prime minister, as well as many ministers and a part of deputy PMs remain the same. But the positions of deputies are to undergo the biggest alternations. In general, they will constitute a team that will be responsible for obeying direct instruction of the Kremlin more frequently than they do now while the position of Dmitry Medvedev as Russia's prime minister will be even weaker. The fact that the government is dominated by the so-called "old guard", namely politicians who have long political experience (also as former ministers) without any important personal ambitions, suggests that this team will not manage to last till the end of Vladimir Putin's presidential term. The change will come earlier with the new government consisting of new people, including Mr Putin's potential successor.

Almost two hours after Vladimir Putin took the oath as Russia's president, he proposed Dmitry Medvedev for the post of Russia's prime minister and submitted the nomination to the State Duma, which was accepted by the lower chamber of the parliament the following day, May 8. According to many predictions (also of Russia Monitor), Dmitry Medvedev has become the head of the Russian government. Even if the president announced some revolutionary measures in the internal policy (as evidenced by a decree on socio-economic development of Russia issued on May 7), he has chosen Medvedev as the symbol of continuation of current political course. Russia's prime minister will still be in charge of minimising the losses in the economy caused by the Kremlin's aggressive external policy. Announcing of reforms and establishing some unrealistic goals constitute only a rhetorical strategy that is supposed to be an answer to the growing expectations of Russian citizens who hope that the authorities also care for their lives and are not only interested in geopolitical matters as well as competition with other powerful countries.

According to the procedures, the State Duma is first supposed to approve the nomination of the prime minister and then the president should designate ministers whose nominations are proposed to him by the head of government. New prime minister has a week to present to the president his proposals on the structure of the new government. First, he named several candidates for deputy positions, which took place at a meeting with leaders of the parliamentary majority party United Russia. in the evening of May 7. The position of the first deputy prime minister is to be taken by former Finance Minister Anton Siluanov, which basically means that he will stay in this department. He will replace Igor Shuvalov on the position of the most important deputy. It seems that Andrey Belousov, Putin's influential deputy for economic affairs, will not be appointed for any important position so his position in the Kremlin could be taken over by Alexei Kudrin. The head of the Russian Audit Chamber, Tatyana Golikova, has been nominated as deputy prime minister in charge of social policy, labor and healthcare, replacing Olga Golodets who, in turn, will be appointed deputy prime minister in charge of culture and sports. The candidacy of the Golikova is strongly advocated by siloviki camp. Doping-tainted Vitaly Mutko will leave this position in order to oversee the

SOURCE: KREMLIN.RU

construction sector. It comes as a surprise that Dmitry Kozak was appointed deputy prime minister in charge of industry and energy. He will have to fight a battle with Sechin and Chemezov. As expected, Dmitry Rogozin, who failed in cosmic programme, lost his position. He will be replaced by former Deputy Defense Minister Yuri Borisov. The biggest hit for Medvedev is the loss of trusted Arkady Dvorkovich who controlled key sections: energy, industry, transport and communication. His situation could have been worsened by Magomedovs' case.

There is no doubt that most of the above-mentioned deputies do not belong to Medvedev's circle. Almost all of them worked for Putin or with Putin either in the Petersburg times or in his government (2008-2012). Additionally, many of them do not maintain good relations with the incumbent prime minister, for instance, Aleksey Gordeyev, former Agriculture Minister, who is set to become a deputy prime minister. As governor of the Voronezh Region, he criticised Medvedev's government for budget relations with regions. Tatyana Golikova got a similar promotion. She served as minister in charge of social policy and healthcare in Putin's government in 2008-2012. Then she was a Chairwoman of the Audit Chamber, and now she will again take care of social sphere, but as a deputy prime minister. What do all new deputy prime ministers have in common? They have been patiently fulfilling Putin's orders for years (as evidenced by Kozak's career). They do not care for their interests, they do not show great political ambitions and they are ready to take responsibility for unpopular decisions. Interestingly, such was the case of Medvedev himself. Most of them are supposed to be in charge of new departments even if they do not have any proper experience. All in all, there is no promotion of specialised technocrats of the younger generation. Putin still counts on the trusty old team. And it shows that he is willing to wait since Russia has now a temporary government that is supposed to introduce unpopular reforms, such as raising the retirement age.

SOURCE: KREMLIN.RU

11 May 2018

POPULIST DECREE OR PUTIN'S INTRIGUE

Just after his inauguration for another six years, Vladimir Putin signed a decree on Russia's socio-economic development. In the document, he has determined a long list of extraordinarily ambitious goals for the government, such as introducing Russia into the top five of the world's largest economies. Mr Putin's plan is all about improving living standards so that Russian citizens live longer, healthier and more prosperously. Nevertheless, the plan seems unrealistic and Mr Putin will not be in charge of implementing new and all the responsibilities will have to be taken by the governement. So if these goals are impossible to achieve, why has the president decided to set them out? It aims to show Russians that their good will always go first; in addition, Mr Putin seeks to convince the West that he is ready to change his very aggressive external policy. But it does not mean the victory of the "party of peace" (represented by Kudrin, Medvedev and oligarchs) over the "party of war" (Sechin, Shoygu, siloviks).

Decree from May 7, 2018 sets out in 16 points national development aims up to 2024 so precisely for the entire Putin's term, which has just started. The document resembles a long list of good wishes in terms of economic and social policy which are going to lead Russia to join the group of the world's five largest economies in 6 years. Putin expects i.e. an acceleration of economy's modernization and digitization, twofold cutting by half the number of Russians living in poverty, the inflation up to 4 percent, economic growth rate above the global average, an extension of transport infrastructure, an acceleration of the pace of residential construction, an increase in accessibility to healthcare facilities, an improvement of environment's condition, an increase in labor productivity, longer life expectancy up to 78 years (from the present 72), bringing Russia to world's ten when it comes to the quality of tertiary education, increasing non-energy export.

Putin's "ukase" is based on the proposals of Center for Strategic Research which is a thinktank led by Alexei Kudrin. On April 23, Medvedev showed up with a visit there. After the conversation Kudrin boasted in the media that Putin recommended Medvedev to base country's social and economic policy on his thinktank's recommendations. Kudrin is supported by "the party of peace", and for the long time he has insisted on cutting the expenses on defense. When it comes to Kudrin, a lot of rumors has been spreading around Moscow about the position he is about to assume. There are different options: president's advisor, 1. Vice-head of the Administration of the President responsible for economy, Putin's special representative whose tasks include improving country's relations with the West. Without the sanctions being lifted up, it will be difficult to set the economy in motion, and liberal Kudrin's reputation is going to help Putin to convince the West. Kudrin and Medvedev do not like each other. The first one left the government in 2011 straight after a clash with the then president Medvedev. But now they will be forced to form an alliance – and it is not just because Putin's will. They both have a powerful enemy- siloviks group, the "party of war" (army, Shoygu, special forces, Sechin, Chemezov).

The directions of social and economic policy which have been outlined in the decree, were already announced by Putin in his annual message to joint houses of Parliament at the beginning of March. At that time, they were overshadowed by the military part of the message. Neither then, nor now the President does not point out the source of funding for announced expenditure – and it is about additional 25 trillion rubles. Now it may be possible to fork out only 8 trillion. But this is the government's problem which is going to carry out this program. On this basis, vice premiers were appointed who are going to act more as mentors carrying out the specifics form the decree. They are going to form 12 country's top priority programs which are going to be filled with "national programs". Th government will no longer be able to postpone taking unpopular decisions, such as: rising retirement age, changes in taxes, education and healthcare. The government's task will be to face social discontent. A similar bundle of documents were announced by Putin at the beginning of his previous term in May 2012. A small number of these were realized. A similar situation will take place now. One cannot win with the shiftless bureaucratic machine and Russia's mentality. Carrying out at least a part of the goals from the decree would require limiting corruption, liberalization of law, or opening the economy and so on. That will require breaking the siloviks' resistance. All this demonstrates that Kremlin's new policy will last to the moment when Putin realizes that the West (especially the USA) did not fall for the "reforms" in Russia. Then another turn towards Russia's aggressive foreign policy will take place and the old government will be replaced by the new one, throwing Kudrin's ideas into a dustbin

SOURCE: KREMLIN.RU

11 May 2018

PUTIN'S SURPRISING INAUGURATION

The beginning of the Vladimir Putin's new presidential term may mean a shift in the Kremlin's policy. Swearing-in was of technical, rather than "tsarist" nature and in his speech, Mr Putin focused on domestic matters, problems of ordinary people and ambitions of Russian development but he did not mention any military or geopolitical issues. Also questions of international policy were almost skipped and accents of hostility towards other countries were avoided. In addition to the decree published on May 7 and predicted composition of the government (not to mention less aggressive character of the Victory Day), such an inauguration suggests that Mr Putin will aim to improve relations with the West, which it is possible now only in the case of European countries, mainly Germany.

On April 3 president Donald Trump hosted a meeting at the White House with presidents of Lithuania, Latvia and Estonia, Dalia Grybauskaite, Raimonds Vejonis and Kersti Kaljulaid. The meeting at the highest political level was organised at the initiative of the USA president as part of the celebration of the hundredth anniversary of the Baltic countries' independence and to stress the strategic partnership between the United States and Lithuania, Latvia and Estonia. Presidents discussed also the issue of providing security in north-east Europe. Of course within the context of Russian threats and defiance towards the Baltic countries. The summit in Washington should be a warning for Putin that the USA will help Baltic countries, if Russia acts with aggression.

The White House has already announced that 5,000 American soldiers would participate in NATO "Saber Strike" and "Baltops" military manoeuvres, which take place this year in the Baltic countries. One should remember that American subunits have already been deployed, de facto permanently, in the Baltic countries.

While on the military ground Americans are preparing themselves for possible hostile Russian actions towards the allies, the energy area is the place of the battle for the Baltic countries. President Trump, during the summit on April 3, stressed the importance of ensuring "energy independence among the Baltic countries" by supplying energy sources with the American liquefied gas. What is important, it is more than empty words. During the Washington summit Lithuanian Klaipedos nafta and Lietuvos duju tiekimas co-partnerships signed an agreement with the Freeport LNG co-partnership on liquefied gas supply. It would be delivered to the gas terminal in Klaipeda.

Such moves, truly decreasing the dependence of Estonia, Latvia and Lithuania on the neighbouring Russia, trigger the Moscow's reaction. Russia is not willing to abandon possibilities of influencing the Baltic countries. It is not only about the military threats and defiance or energy pressure. The attempts of destabilising these countries from the inside and gaining influences by the pro-Russian powers may occur even more dangerous. It is a threat mentioned e.g. in a recently published annual report of the Lithuanian VSD counterintelligence. Lithuanians are afraid that Moscow will try to influence the result of their presidential elections in 2019.

11 May 2018

TRUTH ABOUT RUSSIAN MILITARY BUDGET

The latest news from the Stockholm International Peace Research Institute (SIPRI) about a drastic drop in Russia's military spending has caused a great stir in the country. However, it seems to be unjustified for a number of reasons. Firstly, the reduction is not as big as described in the report of the Swedish think tank. Secondly, it has no major impact on the modernisation of the Russian army or on Moscow's military policy. Thirdly, the drop in military expenditures should not be perceived in any way in terms of a political move; instead, it constitutes rather as an element of both technical and financial strategies.

Western sanctions and a long-lasting economic recession (which has recently changed into stagnation) forced Russia to cut its military spending by 20 percent in 2017 and this has been the first restriction on spending for almost two decades, according to SIPRI, a Swedish analytical centre specialising in the field of global armaments and the arms trade. Such a rapid restriction on defense spending within the period of a single year could have ruined the Russian arms industry. Therefore, the military budget was reduced by only 7 percent. As a matter of fact, the entire reduction process was prepared in advance in the form of a multi-annual plan: Russia has already reached the climax of its defense expenditures. In 2018 and 2019 they will fell by 3.2 percent and by 4.8 percent.

Still, decline in the defence budget does not necessarily mean lower expenditures on new arms. Russian authorities seeks to put finances

SOURCE: KREMLIN.RU

in order, pay off debts, introduce more rational spending and financial co-operation with producers. The decrease in defense spending in 2017 is also due to the fact that in the previous year the budget was significantly higher, because at that time the state decided to pay all interests and loans taken out earlier from commercial banks. In 2016, the situation became critical since interests had to be paid back, but there were no funds for it. In a response, the state significantly increased the military budget in 2016, so that the arms companies could settle most of their debts. A year later, there was a noticeable decline in defense industry production.

For almost two decades, defense spending has increased every year even by 20 percent. Such unprecedented growth must have reached its climax eventually. Indeed, billions were used for the wars in Donbass, Syria or the annexation of Crimea. After that, the sanctions were imposed against Russia. Finally, the price of petrol decreased. In March, the Kremlin announced that Russia would reduce its defense budget to less than 3 percent of GDP over the next five years. Generally, official defense spending has dropped for two reasons; firstly, the necessary level of state security has been achieved – no one in their right mind will attack Russia, a fully recognised military power. Secondly, more and more funds for defence purposes are being concealed in secret budget positions or put under completely different names, for example in other departments.

SOURCE: ENG.MIL.RU

11 MAY 2018

CASPIAN FLOTILLA SAILS SOUTH

Russia's Defence Ministry has decided to relocate the main base of the Caspian Flotilla from the city of Astrakhan at the northern end of the sea to the city of Kaspiysk in Dagestan located about 400 kilometres south. In this way, the Flotilla will be closer to the unstable Middle East region. The number of officers and sailors serving in the Flotilla is also supposed to be increased. This step is part of a larger Russian strategy for the gradual increase of military presence near NATO's southern flank and the Levant region, which is important for political and economic reasons (oil and gas). The appearance of a permanent squadron in the eastern part of the Mediterranean Sea and the consolidation of military presence in Syria (air bases in Tartus and Hmeimim) constituted the manifestation of such strategy. Relocating the Caspian Flotilla to the central part of the body of water means increasing the risk for energy projects that already connect or will connect Caspian hydrocarbon deposits either from Central Asia or from Azerbaijan to Europe.

The Caspian Flotilla is the second maritime element of the Southern Military District (after the Black Sea Fleet). It consists of a few brigades and squadrons of surface ships and coastal defence units (two battalions of naval infantry and a rocket artillery squadron). The very core of the Flotilla is comprised of the Tatarstan and the Dagestan missile ships (with the latter being a flagship one), the Grad Sviyazhsk, the Uglich and the Velikiy Ustyug missile corvettes and the Stupinets missile boat. This is the largest naval force in the Caspian Sea, which proves Russia's actual control over this body of water. Once neglected, it has been clearly strengthened and modernised in the last few of years. It has also taken part in a major military operation for the first time; in autumn 2015, the Flotilla ships shelled Syrian targets located more than 1000 kilometres away using Kalibr cruise missiles.

Astrakhan is not a very good choice due to a problem occurring in the Volga Delta. In winter, some units struggle with sailing out to the sea. What is more, lowering the water level in the northern part of the Caspian Sea makes it difficult for heavier ships to operate. Kaspiysk, located hundreds of kilometres south, is a different place since it is situated in the open body of water. Moving the base to Kaspiysk will facilitate inland operations in the Middle East region. Having a home port and the headquarters nearby Kaspiysk, it will be much easier to carry out military tasks (such as the mentioned attack on Syrian targets) than to sail for a few hours south from Astrakhan every time. A part of the Flotilla has already been stationing in Kaspiysk, including gunboats-hovercrafts, the 414th Naval Infantry Battalion and the 847th Missile Squadron.

The relocation of the base is caused by some political reasons. Granting Kaspiysk with the status of the Caspian Flotilla headquarters strengthens the position of Vladimir Vasilyev, former general of the Ministry of Internal Affairs, who was sent by Moscow at the beginning of the year to act as a new leader of Dagestan. Increasing military presence in this particular region of the Caspian Sea also means increasing the pressure on Azerbaijan, Kazakhstan and Turkmenistan – it will be easier to control marine pipelines and generally the transport between Central Asia, Caucasus and Europe. It is also a signal for Iran, with which Russia has been arguing for many years, mostly about the status of the international waters of the Caspian Sea. The relocation will probably take place next year – although there might be some changes in this regard, depending on the funds for the construction of infrastructure. Therefore, it is likely to occur in 2020.

15 May 2018

TRUMP, IRAN AND MORE PETRODOLLARS FOR RUSSIA

World oil prices are rising and so are the income to Russia's budget. This is great news for the government and Vladimir Putin at the beginning of his new presidential term. Currently, Russian oil exporters earn one third more than six years ago. And prognoses for Moscow are optimistic. Does it mean that funds necessary to implement an ambitious "May decree" will be attainable?

On May 14, the price of Brent oil (to be delivered in July) on the London ICE exchange has risen to 78,1 dollar for a barrel. The historic level of 78 dollars has been exceeded for the first time since November 2014. The biggest reason for such increase in oil prices may be explained by Donald Trump's decision to cancel an agreement on nuclear programme of Iran as well as consequent growing tension in the Middle East, escalating tension between Iran and Israel, increasing threat of war outbreak and prospect of re-closure of global market for Iranian oil. Announcing an embargo on Iranian oil may lead to the decrease in amount of hydrocarbons by 1 million barrels a day.

SOURCE: LUKOIL.COM

The increase in prices has also been influenced by OPEC's policy (and an agreement with producers from outside the group, with Russia, among others) and terrible situation in Venezuela. Merrill Lynch investment bank has predicted that in 2019 oil price will reach the level of almost 100 dollars for a barrel. Many analysts claim that these prognoses are exaggerated, mainly due to a rapid development of shale oil and gas extraction sector in the USA.

As estimated in Russia, every barrel of oil now gives Russian exporters 1000 roubles (16 dollars) more than six years ago, which gives an increase by 30 percent. This is great information for exporters, with Igor Sechin's Rosneft ahead, but also for Putin and the Russian government at the beginning of the new term. The price of 60-70 dollars for a barrel would be enough to close the year without budget deficit for the first time for seven years. Over 70 dollars for a barrel would allow to again fill the reserve funds, which have been drastically depleting in last years. Russia's Finance Ministry predicts a budget surplus this year on the level of 0,5 percent of GDP whereas Ministry of Economic Development estimates it on the level of 1,2 percent of GDP. Conscious government policy sustains the still weak rouble, which results in increase in budget incomes denominated in the national currency (as dollar incomes from oil export are still rising).

Additional petrodollars do not mean, however, that ambitious socio-economic goals set by Putin to the government in the decree from May 7 are more likely to happen then. According to the budget bill, any incomes from above the level of 40 dollars for a barrel are automatically directed to the reserve funds, not to the current expenditures. Government would have to change law and policy, which is rather unlikely to occur. Having the choice between spendings on reforms or maintaining business friends, the Kremlin will certainly choose the second option. Russian National Wealth Fund, where surplus from the oil sales is gathered, has recently become a purse which funds investment projects and most of all: helps companies and banks close to the Kremlin that have suffered in different extent from Western sanctions.

SOURCE: WIKIMEDIA

15 May 2018

RUSSIA KEEPS THREATENING THE USA WITH ATOMIC BOMBERS

After a long break, Russian strategic bombers again appeared in the coastal zone of North America. According to the US Northern Command, On May 11, Two Tu-95 were intercepted by American fighters near Alaska. This is not the first such a move of the Russian army and it has rather political meaning.

Two bombers Tu-95 appeared in the U.S.-Canadian Air Defense Identification Zone (ADIZ) over the Bering Sea in the morning of May 11. They were intercepted by two fighters F-22 Raptor. Russians were flying to the west of the seacoast of Alaska, located north of the Aleutian Islands. They did not trespass the airspace of the USA or Canada. The flight was later confirmed by Russia's Defence Ministry. There were not only Tu-95 bombers, but also Tu-142, which are maritime reconnaissance and anti-submarine aircrafts. Previous such a provocation took place almost exactly a year ago, also in the vicinity of Alaska. On May 2, 2017, two American F-22 Raptor intercepted two Russian Tu-95 strategic bombers and two Su-35 fighters. A few of days earlier, a Russian Su-27 fighter dangerously approached an American P-8 maritime patrol aircraft over the Baltic Sea. The Russian aircraft flied almost 6 metres from the US Navy's machine.

All those flights have only propagandist and political meaning. From the military point of view, there is no use in sending an aircraft armed in missiles that can reach thousands of kilometres so close to a territory of a foreign country and venture its interception. Alaska disposes of a U.S. Army launch site for anti-ballistic missiles in Fort Greely (about 130 kilometres southeast of Fairbanks). It is not a coincidence that Russian aircrafts, which can carry atomic weapons, appeared in such a place, especially taking into consideration Mr Putin's rhetoric of American defence capabilities against Russian missiles. Fort Greely has at its disposal a majority of 44 Ground Based Interceptors missiles capable of destroying intercontinental ballistic missiles (ICBM). Others are stationed in Vandenberg Air Force Base in California. It should be remembered that in June 2012 Russian bombers simulated a missile attack on American objects of anti-missile shield in Alaska within the great strategic manoeuvres of nuclear powers. Russian bombers Tu-95 are armed with cruise missiles KH-55 and in newer and more dangerous KH-101 (conventional warhead) and KH-102 (nuclear warhead).

SOURCE: LUKOIL.COM

21 May 2018

PROGNOSIS FOR RUSSIA'S PETROLEUM POLICY

The composition of Russia's new government and situation on the world oil market suggest that the country will maintain the current course in this economic sector. It can be proven by the agreement on limiting oil extraction; according to the rule that if something functions well and brings profits, it should not be improved.

Russia's Energy Minister Alexander Novak will retain his post in the new government. He has a strong position in the government and is supported by the Kremlin, mainly thanks to his successful cooperation deal with Saudi Arabia. This was an important and difficult task. Riyadh is one of the strongest leaders in oil production and takes the lead in OPEC. But at the same time, it is the ally with the USA and a conservative Sunni country that provided strong financial support to the Chechen rebellion some time ago. On May 17, Saudi Arabia informed that the country's authorities conducted talks with other OPEC members and Russia about concerns connected with rising oil prices. That day, the price for an oil barrel reached 80 dollars. Saudi Energy Minister Khalid al-Falih discussed this issue with his Russian counterpart Alexander Novak. They are expected to meet this week during the economic summit in Saint Petersburg. The current agreement on maintenance of limited oil extraction has been prolonged in November untill the end of this year. But since the beginning of this year, the oil price has risen by as many as 18 percent. Few changes have been introduced in OPEC and Russia's strategy from November. It can be noticed in the case of the latter; by freezing the level of extraction, Russia has already gained additional 20 billion dollars, and Russian companies – even 8 billion dollars.

There will be no change in the foreign energy policy, but what about the domestic one? It seems that there is no other big company left to be taken over by Rosneft. The Kremlin is not likely to allow for taking over Lukoil's shares since it would mean a far-reaching renationalisation of the oil sector. Otherwise, the great public-commercial five, consisting of such giants as Rosneft, Lukoil, Gazpromneft, Surgutneftegas and Tatneft would be changed. Dmitry Kozak was appointed new deputy minister of energy. But more important than him (he performs all orders from the Kremlin: he supervised the North Caucasus, he controlled the Olympic Games in Sochi; he is a man of many talents) is the deposition of his predecessor. Arkady Dvorkovich worked actively in the sector and was a real obstacle for Sechin's expansion. His deposition could have been influenced by the siloviki's action against the Magomedov brothers. The change on the position of deputy minister in charge of energy sector may suggest expanded offensive of Sechin and generally an increase in siloviki's role in governing the field. But this has a negative impact on a long-term basis and economists such as Alexei Kudrin are aware of it. To what extent are the changes in energy sector possible? It will be probably tightly connected with the fate of reforms, which should be conducted in order to fulfill ambitious socio-economic goals set by Putin in his decree published on May 7.

SOURCE: ROSTNEF.RU

21 May 2018

ANOTHER CONFLICT BETWEEN ROSNEFT AND CHINA

Igor Sechin's reassurances about tightening cooperation between Rosneft and China are becoming less and less real. Not only did the sale of Russian company's shares to the Chinese appeared to be unsuccessful, but Beijing also fiercely criticised Rosneft's operations in another country; it is all about extraction works on the South China Sea shelf within one of Vietnamese projects. Until now, China has not criticised its Russian partners. The case of South China Sea, therefore, can be perceived as a sign of troubles in their relations.

Rosneft entered Vietnam after the TNK-BP takeover in 2013. Rosneft Vietnam B.V. was previously known as TNK Vietnam. On May 15, Russians have begun drilling on the Lan Do ("Red Orchid") deposit, which was fiercely criticised by the Chinese. It stated that no company had the right to conduct extraction operations on the reservoir controlled by the People's Republic of China. The country's Ministry of Foreign Affairs added that such situations might negatively influence relations between Beijing and countries that violate the sovereignty of the PRC. It evoked a reaction of Vietnam's Ministry of Foreign Affairs whose representatives underlined that works on the South China Sea shelf had been conducted in accordance with the international law, whereas exploitation of deposits had taken place on the territorial waters of Vietnam.

China claims the right to almost the entire South China Sea area extremely rich in deposits. On these waters, the Nine-Dash Line was drawn, which, according to China, is supposed to mark their territory. This area encompasses almost 80 percent of the South China Sea reservoir. Since 1947, Beijing has considered this territory as its own, but the international society does not seem to agree. In 2016 the International Court of Justice in the Hague issued a decision unfavourable for China so it was immediately rejected by Chinese authorities.

Lan Do is located inside the zone marked by Beijing with the so-called Nine-Dash Line, therefore Rosneft Vietnam was afraid of China's negative reaction. However, Hanoi authorities claim that the Red Orchid deposit is placed in Vietnam's Exclusive Economic Zone. While Rosneft's Vietnamese branch tried to keep their actions in secret, its Russian parent company published information about the beginning of drillings on their website. After Beijing's sharp reaction, Rosneft replied that all operations were conducted in accordance with the Vietnamese law as well as acquired licenses.

Lan Do reserves are estimated at 23 billion cubic metres of gas. Rosneft Vietnam B.V. is the project operator with 35 percent of shares, an Indian multinational oil and gas company ONGC holds 45 percent while PetroVietnam – 20 percent. Currently, Rosneft operates in Vietnam on three underwater deposits: Lan Do, Lan Tai and Phong Lan Dai. The last one started to be exploited in 2016, but then Beijing did not express public dissatisfaction. Now its strong declaration may result not only from the principled approach to the problem of the South China Sea, but also from the Chinese's disappointment after the Russians had withdrawn from selling a part of Rosneft; they did not come to an agreement with state-owned entities, that had basically taken over China's CEFC China Energy involved in some scandals.

SOURCE: KREMLIN.RU

23 April 2018

RUSSIAN GOVERNMENT: NEW GENERATION OF SILOVIKI

The composition of a new cabinet presented by Prime Minister Dmitry Medvedev to President Vladimir Putin draws special attention to two new faces among ministers. Both politicians are associated with special services and both consider the promotion to the cabinet to be yet another important step in developing their political careers. They also belong to a new generation of so-called Putinocrats, to whom the current president and his colleagues are gradually handing over power.

Dmitry Patrushev, who was CEO of Russian Agricultural Bank for last eight years, will be appointed Agriculture Minister in Medvedev's government. Yevgeny Zinichev, who has been the Deputy Director of the Federal Security Service (FSB) since 2016, is supposed to become the Minister of Emergency Situations.

More importantly, Patrushev is the elder son of the current Secretary of the Security Council of the Russian Federation, Nikolai Patrushev, who also served as the Director of the FSB in the years 1999-2008. Patrushev is often regarded as Putin's main associate in a number of committed crimes: from a series of attacks on apartment buildings in 1999 (a pretext to attack Chechnya) to the massacres of hostages in Dubrovka (2002) and Beslan (2004). Even nowadays, he has an enormous influence on the state, especially in special services. In addition, Patrushev Junior has also gained some experience in the services: he graduated from the FSB Academy in 2006. Later, however, he was seconded to the banking sector. Young Patrushev belongs to a group of politicians' children who have been connected with Putin for many years and are now slowly taking over key positions in the state, first business and financial (executive boards of corporations and banks), and now – Patrushev's promotion may be perceived in terms of political forerunner. It may be the beginning of some sort of power inheritance in Russia.

The second group, on which the Russian regime will also be based on in the following years, especially after 2024, are the most trusted people from Putin's inner circle. In recent years, many security officers and adjutants of the president have been promoted to state positions; such a situation occurred mostly in regions. One of them is Yevgeny Zinichev; first, he served in the Federal Protective Service (FSO) and then he became the FSB Director in the Kaliningrad Oblast. After that, he was briefly the Governor there and finally he was appointed Vice Director of the FSB in Lubyanka. His presence in the cabinet, more specifically as the head of the particular ministry that will allow for widespread recognition and will provide him with approval of the Russian people in a short period of time, indicates that Putin has already prepared some big plans for Zinichev.

25 May 2018

BRUSSELS MERCIFUL TO GAZPROM. END OF EU ENERGY SOLIDARITY

After longtime proceedings, the European Commission stated that Russia's energy giant Gazprom had been using monopolistic practices on the EU market. In the recent agreement with Russians, Brussels confirmed that for many years the EU had been divided into two categories of states; Western countries, with Germans ahead, were receiving gas for a much lower price than Eastern and Central European ones. But the Commission did not impose any fine on Gazprom while the mistreated companies will not get any compensation. The assurance that the Russian company will have to treat Poland or Estonia in the same way as the Netherlands or Italy is nothing more than empty words. Why? Because many Eastern and Central European countries aim to diversify their gas import in order to limit their cooperation with Russia. The European Commission itself treated Eastern and Central European countries as the worse ones. It is the final end of the European energy solidarity as well as a bad sign for the Nord Stream 2 case and for a transit of the Russian gas through Ukraine, Belarus and Poland.

The decision to validate the agreement ends the case that started with objections regarding the Russian monopolist's actions issued by the European Commission in 2015. At that time, Brussels already claimed that Gazprom, due to realising such strategies, had infringed the EU antitrust rules. Eight members of the EU – Bulgaria, Estonia, Lithuania, Latvia, Poland, the Czech Republic, Slovakia and Hungary

SOURCE: EC.EUROPA.EU

– were treated as inferior ones. According to the signed agreement, Gazprom is bound to take several measures that will not infringe the EU antitrust rules and will not discriminate part of the EU countries. Obligations are to be valid for eight years.

Such an end of the proceedings is perceived as a success for Gazprom. A potential fine could reach 10 percent of the company's global turnover. In turn, it ends up with no fines for Gazprom and no compensation for mistreated companies. Not only did Gazprom avoid fines, but it also turned out that it gained three years that have passed since the beginning of the proceeding. During that time, Russians were still using controversial practices and only now they are due to change it. Such a decision of the European Commission means that Russians have been granted special treatment. It is necessary to remember that previous cases of that kind did not end up only with an obligation to obey the EU rules but also with fines, such as half a billion euro of fine for Microsoft in 2013.

Such a mild treatment of Gazprom by the European Commission assures that in the case of gas cooperation with Russia, Brussels will be realising orders from Berlin; unless other member states manage to block it. Currently, this kind of battle takes place in the case of establishing the legal status of the Nord Stream 2 offshore part; on one hand, there are Eurocratic lawyers and officials in Brussels who force the solution favourable for Russia (and Germany), while on the other, there is a coalition of the EU countries aiming to combat the project. Unfortunately, everything points to the fact that Berlin will not give up on the Nord Stream 2 project. The way how the EU ended antitrust proceedings against Gazprom means that there is no European energy solidarity. For many years, Western members of the EU have tolerated mistreating the new EU members by Gazprom, and now they did not even help in the struggle for compensation. The situation is similar in the case of the Nord Stream 2. Germans want the project to be implemented because it will make their country a gas hub for a great part of Europe. Interests of Poland and other countries are not important at all. One should have no illusions that Poland can count on great European allies in the case of energy security. The only hope lies in the United States and in the enforcement of the Three Seas Initiative, also on the gas level.

SOURCE: FACEBOOK.COM/SPIEF

26 May 2018

LUKOIL RETREATS FROM IRAN

Trump's decision to withdraw from the Iran nuclear agreement and to re-impose sanctions on the country is now changing strategies of many companies around the world. Russian enterprises are no exception to the rule; the country's oil company Lukoil has recently announced that it would withdraw from two of its Iranian projects. Nevertheless, the oil giant is likely to retreat from any plans at all as it may be afraid of American sanctions.

As the company's CEO Vagit Alekperov announced at the St Petersburg Economic Forum, the company is now considering only one project in Iran instead of two, as it has been discussed before. Lukoil is currently interested in the Ab-Teymur field. In addition, Iran will implement the Mansouri project jointly with other companies, Mr Alekperov said. He noted that Lukoil "is not doing any sudden movements but it rather seems to assess the risks". The oil giant planned to exploit the Mansouri oil field located in the Khuzestan province. The tender for its development was announced by the National Iranian Oil Company in summer 2017. Apart from Lukoil, Indonesia's state oil company, Pertamina also applied to develop the field. This winter, Lukoil was in talks with Pertamina and Denmark-based Maersk on establishing a consortium for the Ab-Teymour and Mansouri oil fields. At the beginning of April, Mr Alekperov announced that he would expect to sign contracts with Iran in 3-4 months. In both cases, Lukoil was the favorite to win the tender.

The company's CEO has recently admitted that it has to think about its plans in Iran since "it has been quite active in the U.S. market". The situation is related to the sanctions imposed on Iran by the Americans. It is hard to believe that Lukoil did not take into account the fact that the USA might possibly withdraw from the agreement with Iran, as suggested by Lukoil's CEO. However, the same may apply to other Russian companies. In March, Russian state-owned energy firm Zarubezhneft signed a deal to boost production at two oil fields in western Iran.The Russians made such a decision in a situation of increasing tension between Tehran and Washington. The contract with Zarubezhneft constituted yet another move aiming to strengthen energy cooperation between Russia and Iran. The NIOC signed a number of deals with Gazprom on exploiting the South Pars field in 1997; in the previous decade, it also concluded some agreements with Gazprom and other Russian companies. In 2013-2014, Iran and Russia signed agreements on research, production and infrastructure developmentt of a total value of 10 billion dollars. In 2016, Gazprom submitted a formal request to become a partner of the NIOC in the construction of the country's first LNG plants. In July 2016, Russia and Iran signed a new five-year strategic energy plan.

26 May 2018

ST. PETERSBURG: PROGRESS IN RELATIONS BETWEEN GAZPROM AND GERMANY

Talks between the leadership of Gazprom with heads of German gas companies constitute yet another sign that both parties aim to accelerate the implementation of their joint projects. An outright opposition of the USA and American allies in Europe and a threat with sanctions on European companies engaged in the Gazprom's projects seem to complicate the Russian-German plans. But for now, there are no signs that Berlin would yield. Moreover, talks in St. Petersburg signalize the opposite.

On May 24, a meeting between chiefs of Gazprom and head of two German gas companies took place at the St. Petersburg International Economic Forum. Firstly, CEO Alexey Miller conducted talks with Mario Meren, CEO of Wintershall Holding GmbH. They discussed current issues and prospects of the cooperation. Yet the most important topic was the implementation of Nord Stream 2 project. In this context, delegates of both companies exchanged views on the development of the German gas transport system for receivers in Germany and other European countries. Just after the meeting with Wintershall's representatives, Miller met with a delegation from Verbundnetz Gas (VNG) and its CEO Ulf Heitmüller. This conversation touched the status of two joint projects: Jemgum and Katharina underground gas storages. The former has been launched in 2013 while the latter in 2017. Currently, they are being developed to reach their maximum capacity.

The information about the talks on the infrastructure, which allows to stock up and send as broadly and as much as possible of gas coming through the bed of the Baltic Sea to Germany, confirmed that Germans and Russians aimed to make Germany a gas hub, which would dominate the neighboring countries. As a result, Poland and other countries in the region would become double-dependant both on the source (Russia) and on the supplier (Germany). In fact, it will worsen the situation, as currently gas is being supplied directly from Russia.

SOURCE: GAZPROM.RU

In 2017 Gazprom supplied to Germany a record-breaking amount of gas: 53.4 billion cubic meters, which is 7.2 percent (3.6 billion cubic meters) more than in 2016. Shares of Wintershall Holding GmbH are totally held by BASF company and the company is Gazprom's partner in the Nord Stream project (gas transport) and in extraction projects in Yuzhno-Russkoye field and Urengoyskoye field. VNG AG is a part of VNG Group that consists of over 60 companies connected with gas extraction, production, transport, storage and trading all around Europe. In the Katharina UGS project, VNG and Gazprom have half of the shares each. Plans expect that the maximum capacity of storages will be achieved in 2025 when 12 caverns will be able to store 650 million cubic meters. Jemgum USG project is a joint venture of Gazprom, VNG, and Wingas. In years 2019-2020, it is expected to reach the capacity of 900-950 million cubic meters.

In 2017, export of Russian gas to the EU has risen by 8.4 percent (year by year) and reached 194.4 billion cubic meters, and Gazprom's share in the EU market has risen from 33.1 percent to 34.7 percent. After the start of Nord Stream 2, Russia will be able to supply 110 billion cubic meters of gas a year (including the Nord Stream working since 2012) to Europe. Germans are the biggest Russian gas buyers. Wintershall and PEGI/E.ON are held by five shareholders of Nord Stream (15.5 percent of shares each). Also two German companies – Wintershall and Uniper, signed in April 2017 an agreement on financing 50 percent of the Nord Stream 2 project (every company is expected to provide 950 million euro.

SOURCE: KREMLIN.RU

27 May 2018

RUSSIA'S COSTLY ALLIANCE WITH ASSAD ENDS UP WITH BLOODY SLIP-UP

At least nine killed soldiers and mercenaries were killed in the battle against jihadists in eastern Syria. The bloody fight ended with Moscow's another slip-up that occurred less than a week after Syrian President Bashar al-Assad visit to the Black Sea resort city of Sochi. As previously, reassurances on progressive stabilization and military successes have been confronted with the frontal reality. To make matters worse, the United States is not likely to withdraw its troops from Syria.

On May 17, Vladimir Putin held a meeting with Bashar al-Assad. Information about the talks was provided with official formulas about the ever-improving situation in Syria and, of course, military successes. Previously, Presidents Putin and Assad met in Syria at the Khmeimim airbase. Mr Putin announced the actual end of the war. A few days later, Russian bases in Syria have been subjected to a series of mysterious attacks. Now, shortly after Mr Assad's visit to Sochi, the Islamic state reminded of its existence, inflicting heavy losses on the Syrian-Russian coalition in eastern Syria's Deir al-Zor province.

On 27 May, Russian Defence Ministry informed that four Russian military personnel had been killed in fighting in eastern Syria. The Russians allegedly died in the Deir al-Zour governorate "after several mobile units of the Islamic State attacked a Syrian Army artillery battery". Two Russian military advisers were to be killed on the spot whereas five other military personnel were wounded and they were taken to a Russian military hospital. Two of them died of their wounds. So far, Russian toll in Syrian battle increased to 92 casualties. Officially, it was not informed about the exact time of the attack.

According to the Syrian Observatory on Human Rights and the findings of independent Russian media, the battle took place on May 23. Islamic State militants allegedly attacked Russian soldiers. The fighting, which lasted about an hour, occurred near the town of Mayadeen. Killed Russians had been helping to direct Syrian artillery fire. The Syrian Observatory for Human Rights claimed that nine Russian soldiers alongside at least 26 Syrian army troopers had been killed in the attack. Russian casualties included not only military personnel but also mercenaries from the Wagner Company. According to regional Russian media reports, among them victims, there are four residents of the Zabaikalsky region and two people from Bashkortostan.

SOURCE: WIKIPEDIA

27 May 2018

GRU AND KURSK BRIGADE: MH17 HITS PUTIN'S PLAN

The political course introduced by Vladimir Putin at the beginning of his new presidential term has already appeared to be quite unsuccessful. The case of MH17 crash seems to indicate that the Kremlin will find it extremely difficult to "warm up" its relations with the West as Moscow does not intend to admit violating international law or to acknowledge its criminal activities in Ukraine. It is likely that Mr Putin will not be able to persuade even a part of European countries to "reset" if he does not make any personal or image concessions.

Such events as his speech delivered at the inauguration of the fourth presidential term, the so-called "May decree", composition of Russia's new government and a series of international meeting have opened a new chapter in the Kremlin's foreign policy. In the face of economic problems and increasing problems in security policy, Mr Putin decided to warm up relations with the West, and, more specifically, its European part. Thus he manages to take advantage of strongly diverging opinions of Washington and part of EU capitals on such issues as trade policy or Iran nuclear issue. The key to the success of this policy will be to involve France in cooperation with Germany. It seems to explain the importance of Emmanuel Macron's visit to the St. Petersburg International Economic Forum. Meanwhile, at a joint press conference, Mr Putin had to explain himself on the crime committed several years ago.

On May 25, both Australia and the Dutch government declared than Russia had been responsible for the shooting down of Malaysia Airlines Flight 17. Dutch foreign minister Stef Blok called on Moscow to accept responsibility and cooperate in the investigation. The official declaration of the Netherlands and Australia (citizens of these two countries constituted the majority of MH17 passengers) was preceded by some investigative statements. On May 24, the Joint Investigation Team (JIT) announced that a Buk missile, which had brought down MH17 (killing 298 people), originated from the 53rd anti-aircraft missile brigade, a unit of the Russian army from Kursk in Russia. Thus the official body confirmed earlier findings of the independent investigative group Bellingcat. On May 24, the collective published a report that the shooting down had been coordinated by a high-ranking Russian military intelligence officer Oleg Ivannikov, also known by the covert name "Orion".

Moscow has been fiercely criticised by the West in the light of the announcement of the Dutch government, findings of the JIT and a Bellingcat report. According to British foreign secretary Boris Johnson, "the Russian government must now answer for its actions in relation to the downing of MH17". The move by the Netherlands and Australia has also been supported by the United States. NATO Secretary General Jens Stoltenberg has called on Russia to accept responsibility for the crash and cooperate with international efforts to establish accountability. The MH17 case dominated over the St Petersburg International Economic Forum and Mr Macron's visit to Russia, which proves that Mr Putin will find difficult to improve Moscow's relations with Europe if he does not change his positions on such issues as the downing of MH17. However, both the Kremlin and Russian generals are not used to plead guilty. Such a state of matters may mean that Russia will change its political course sooner than expected.

29 May 2018

TIMCHENKO VS. SECHIN. CONFLICT BETWEEN PUTIN'S FRIENDS

Russia's private gas producer Novatek and state-owned oil giant Rosneft have recently been united by the struggle with Gazprom's monopoly. However, it is only a tactical alliance, as evidenced by contradictory interests of Gennady Timchenko and Igor Sechin in the field of petrochemistry. Rosneft plans to increase chemical production, which threatens the dominating position of Sibur where the main role is played by Timchenko and his long-time business partner Leonid Mikhelson. The conflict in the chemical sector confirms the rising tension in the Russian elite connected with fewer and fewer opportunities that could be grasped thanks to their good relations with the Kremlin.


SOURCE: SIBUR.RU

Gennady Timchenko is known as "Putin's cashier". Both men got to know each other at the beginning of the 90's in St. Petersburg. Timchenko owns shares in many strategic businesses; moreover, he has been blacklisted by the Western sanctions. On May 24, he indirectly insulted Rosneft by saying that Sechin's company could not compete with Sibur, a petrochemical giant controlled by Timchenko and Mikhelson (as the latter is his old, good partner from Novatek). 34.08 percent of Sibur's shares are owned by a company possessed by Mikhelson while 17 percent is owned by Timchenko.

Sibur is Russia's largest petrochemical company, a giant in the field of chemical production based on gas and oil. It gathers several dozens of concerns which jointly employ over 50 thousand people. It produces rubbers, plastics, mineral fertilisers and rubber products. Rosneft is one of the raw material suppliers for Sibur; nevertheless, it has the ambition to become an independent player in this sector. Earlier, it was said that Rosneft had planned to build two petrochemical plants in the Eastern Siberia and in the Volga Region with a joint annual production power of 4.8 million tonnes of polyolefins. Sechin announced that the company had sought to reach the level of 20 percent of its gas and oil processing that would be devoted to chemical products. Timchenko has claimed that these are only declarations that will not be realised. In order to avoid such a situation in the future, Timchenko has argued that a ministry of the oil-gas industry shall be created. The next day, on May 25, Rosneft replied that his assessments had been wrong and that he had had no knowledge about the real situation. Sechin's company expressed hope that Timchenko's words were not the stance of the whole Sibur, which is currently carrying out effective cooperation with Rosneft. The company suggested that Timchenko's dismissive approach to Rosneft's petrochemical plans indicated his real fear of the competition.

SOURCE: NORD-STREAM2.COM

30 May 2018

NORD STREAM 2 AND TURKISH STREAM. GEOPOLITICS AND PUTIN'S PEOPLE PROFIT

Gazprom's big infrastructure projects are another way of transferring state funds to the pockets of Vladimir Putin's friends. It is not the first time when geopolitics (understood as the desire to seriously harm the rebellious Ukraine) serves to conceal Russia's kleptocracy. As in the case of the organisation of the Sochi Olympic Games or the construction of a bridge on the Crimea, implementing Nord Stream 2 and Turkish Stream projects seems to be extremely profitable for subcontractors, mostly companies belonging to people from Putin's inner circle. The financing is provided by state-owned banks (and therefore the Russian taxpayer's money is guaranteed) as well as Western companies.

Such speculations have been officially confirmed by a report published by analysts from Sberbank. They have already been fired whereas CEO of Sberbank, Herman Gref, apologised to Gazprom's president Alexei Miller for unfavourable theses conveyed in the report. But that ship has sailed. The report intended for Gazprom customers has been sent to a wide range of recipients.

According to analysts of Sberbank, the cost of the Turkish Stream project has been estimated at 21 billion dollars and the investment will achieve profitability even in 50 years. The cost of Nord Stream 2 will amount to 17 billion dollars; however, the investment will not pay back in 20 years. Gazprom's actual losses due to both projects were reported by Sberbank CIB at 17 billion dollars. Nevertheless, both investments provide lucrative contracts to the friends of the Russian president. The implementation of both projects will be most profitable for construction and insurance companies controlled by Arkady

Rotenberg (known as "the king of Russia's state procurement") and Gennady Timchenko. The latter, referred to as "Putin's cashier", is a businessman who cares about investing and trading funds owned by the president. So it is very likely that the implementation of such projects as Nord Stream 2 and Turkish Stream will bring some profit to Mr Putin himself.

This financial aspect turns out to be decisive for the construction of gas pipeline projects, the more so as it is already known that the main goal both Gazprom and the Kremlin have set for themselves in the construction of these gas pipelines will not be achieved. It is impossible to withdraw from the transit of gas through Ukraine even if the Russians start gas pipelines that would possibly bypass their neighbour. Both transport through Nord Stream 2 and Turkish Stream will not manage the entire export of Russian gas to Europe unless it decreases by as much as 20 percent compared to 2017. According to the authors of the Sberbank report, Gazprom will have to transport up to 39 billion cubic meters of gas annually along this trail. It is significantly less than at present, but it means that the Russians will be forced to negotiate a new transit agreement with Kiev. They cannot give up this export route to Europe, which clearly puts them in a worse negotiating position. Therefore, the Ukrainians can at least partially compensate for a smaller amount of transported gas through their pipelines with higher transit fees.

30 May 2018

TURKMENBASHI SEA PORT: NEW ROAD TO CENTRAL ASIA

The launching of a large commercial port on the Caspian Sea coast has a great signifiance not only for Turkmenistan whose authorities have been pursuing a strategy of economic opening to external markets. The Turkmenbashi terminal means an increase in the export of hydrocarbons to Europe, but it also constitutes an opportunity for greater trade exchange of the Central Asia with external markets and could be perceived in terms of an important part of the new Silk Road linking Europe with China. However, the port needs to struggle with the competition of neighbouring Kazakh ports.

The sea port was built for over 5 years while its construction cost $1.5 billion. At the beginning of May, the seaport in the Kazaksh city of Turkmenbashi was opened on the east coast of the Caspian Sea. The country's president Gurbanguly Berdymukhamedov announced that the new port would become an important maritime link for trade to the Black Sea and Europe, to the Middle East, and to Asia.

For many years after regaining independence, due to its isolationist policies, Turkmenistan could not be perceived in terms of an important hub for trade routes from Asia to Europe and those from the north to the Middle East. Instead, the port relied rather on revenues from exported natural gas. The Turkmen economy is deeply dependent on hydrocarbon exports, which accounts for as much as 85 percent of the country's total exports. Turkmen tankers are expected to deliver oil to Baku, where is it pumped into the Baku-Makhachkala-Novorossiysk and the Baku-Tbilisi-Ceyhan pipelines. But this is not the only advantage of the Turkmenbashi Sea Port. The government assumes that the new sea port will triple the country's trade turnover. The new port will be able to handle 300,000 passengers a year, 75,000 trucks and 400,000 containers. The Turkmenbashi port, as well as the $2.5 billion new airport located

SOURCE: TURKMENISTAN.GOV

in the capital, Ashgabat, and other major infrastructure projects (worth $5 billion) are a part of the plan to make Turkmenistan the "Heart of the Great Silk Road", as announced in Berdymukhammedov's New Year's message. Theoretically, Chinese exporters could use a connection through Kazakhstan to ship goods to Europe through Azerbaijan and Turkey via the Turkmenbashi port.

The problem is serious competition on the eastern coast of the Caspian Sea: the Kazakh ports of Aktau and Kuryk. The third of Kazakhstan's three new terminals at the Aktau port started operating in 2014. Thanks to this, the Aktau port could raise its capacity to some 19 million tons annually. The new sea port of Kuryk, located 60 kilometres south of Aktau, will have reached its full handling of 7 million tons of cargo annually by 2020. Now, it mainly serves the Kashagan oil field. The Turkmenbashi port competes with ports in the Aktau and Kuryk also in the import of goods, which are then supposed to be transported to other Asian countries, including China. Due to its geographic position, the Turkmen terminal is already in a worse position because Kazakhstan borders with China whereas Turkmenistan does not have such an opportunity. It seems that the port may start to cooperate with Uzbekistan. Turkmen president has offered Tashkent the opportunity to use the new port; however, it seems that the Kazakhs and Uzbeks have already been in more advanced talks about accessing the ports of Aktau and Kuryk. Mr Berdymukhamedov suggested that the port could be also used by Afghanistan, another state in the region. In addition, the interest in the port was expressed by Kyrgyzstan, which does not have the best relations with Kazakhstan. In turn, the Russians are counting on increasing trade between the Turkmenbashi terminal and the port of Olya on the Caspian Sea.

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