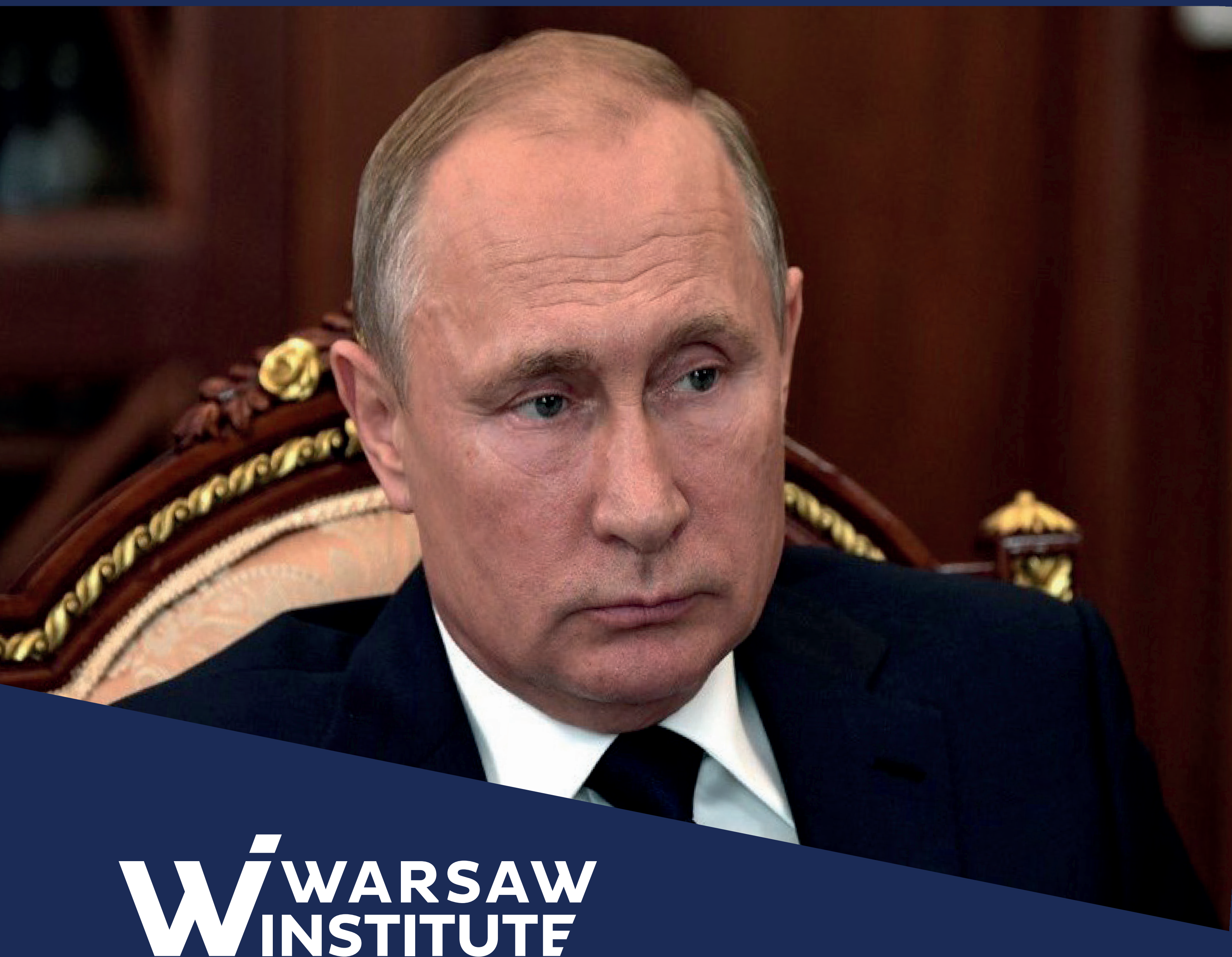
RUSSIA MONITOR

MONTHLY

June 2018



WARSAW INSTITUTE

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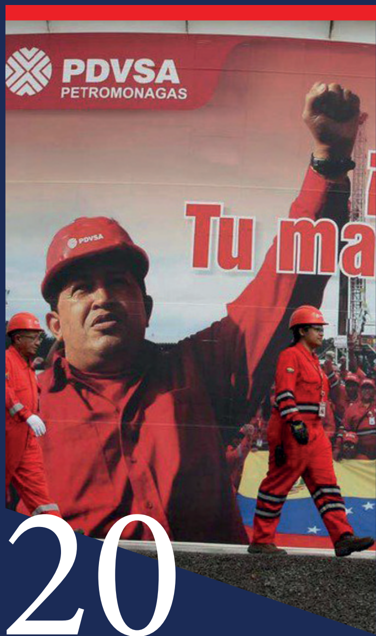
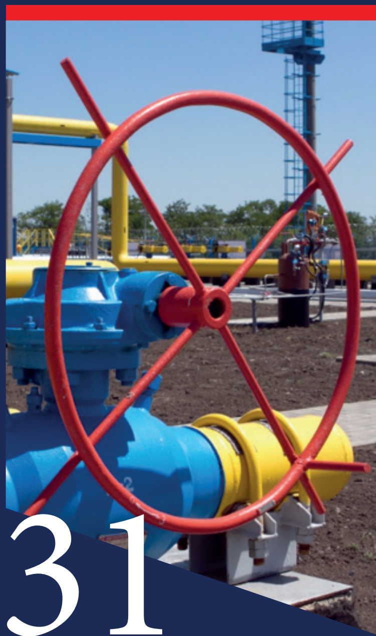
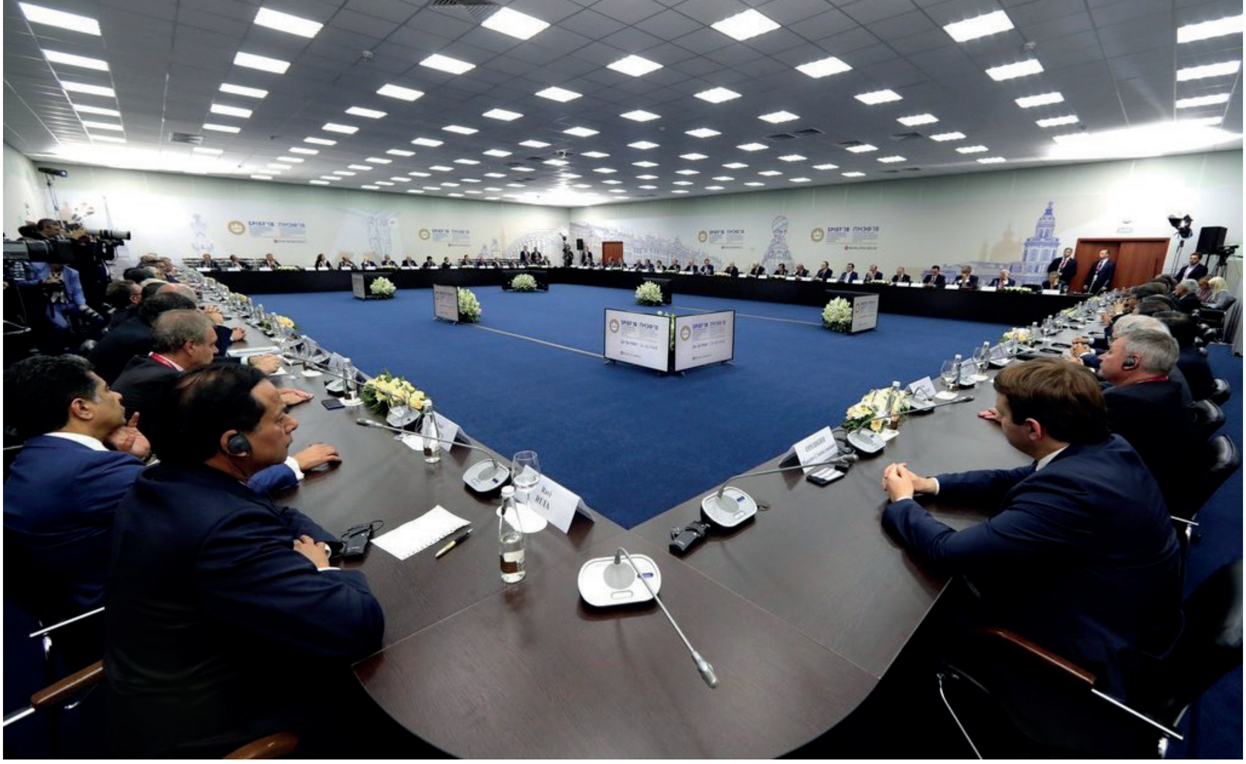






SOURCE: KREMLIN.RU

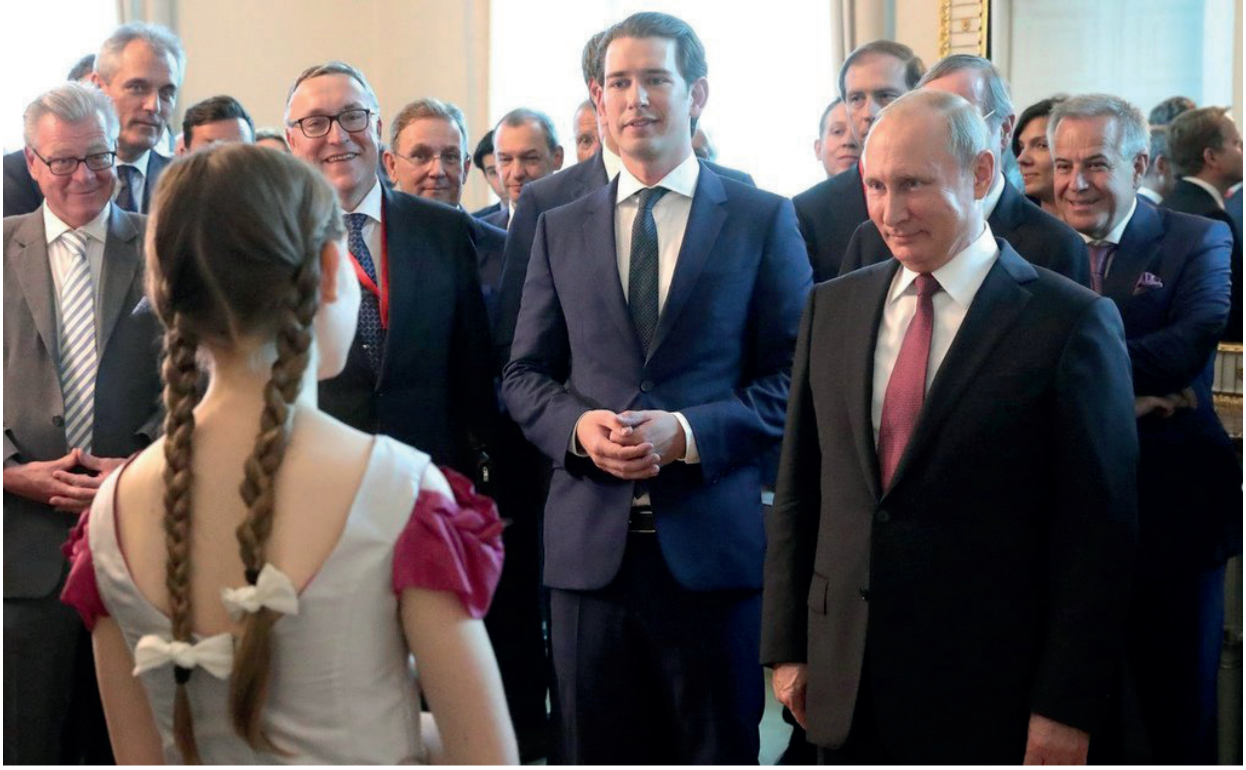
4 June 2018

WORSE FORECASTS FOR RUSSIA'S ECONOMY

This year, Russia's economic growth will be much lower than it has been previously assumed. The analyses of the subsequent Western investment banks were confirmed by Alexei Kudrin. Regarded as the leader of the reform campaign camp, chairman of the Accounts Chamber admitted that poorer forecasts had been triggered by American sanctions introduced in April.

Alexei Kudrin spoke about the country's economic situation during one of the sessions of the International Economic Forum in Saint Petersburg. He believed that new sanctions imposed by the United States in April this year would reduce gross domestic product growth by 0.5 percent, against a previous forecast of 0.2-0.3 percent. Economic prospects for Russia have also been negatively assessed by analysts of three investment banks. U.S. bank Morgan Stanley said it expects the Russian economy to shrink by 0.5 percent (from 2.3 percent to 1.8 percent) this year. Previously, analogous conclusions have been drawn by Goldman Sachs and Citi. The Ministry of Economic Development of Russia is also inclined to adjust its growth forecast in 2018 (to 2.1 percent of GDP), which is due to weak economic indicators at the beginning of this year. In relation to the same period last year, this quarter does not look very good: Even industrial production has increased by 1 percent only. There are many indications that the outflow of capital from Russia may be even greater than in the previous year.

The loss for the period between January and April 2018 was amounted to 21 billion dollars and to 31 billion dollars in 2017. Another factor that negatively affects the outlook for the economy is the continued threat of further U.S. sanctions. Russia's investment climate will be additionally hindered by a recent law passed by State Duma that gives the Russian authorities the right to retaliate agains the latest U.S. sanctions as well as a draft law introducing criminal liability for any entities that implement provisions of Western restrictions.



SOURCE: KREMLIN.RU

6 June 2018

PUTIN IN AUSTRIA: FRIENDLY VISIT AMONG THE GAS FUMES

It is not a coincidence that Vladimir Putin headed to Vienna to make his first foreign trip since being sworn in for a fourth term. Austria has always been considered as one of Russia's friendlier EU member states. Now cooperation between both countries can be reinforced thanks to the presence of the pro-Russia Freedom Party (FPÖ) in the Austrian government. But regardless of ideological issues, gas cooperation is the main foundation of Vienna's good relations with Moscow. And for Mr Putin, a visit to the capital of Austria is part of a new policy of warming relations with Europe in order to abolish sanctions.

On June 5, Russian President paid a one-day state visit to Vienna. It is Mr Putin's first foreign trip since his reelection for a fourth term. Austria has been chosen for several reasons. First of all, it is about strengthening the image of Russia as a reliable and cost-effective partner for Europe in the area of gas supply. Secondly, Russia seeks to tighten its economic cooperation with Austria. Thirdly, Austria takes over the rotating EU presidency in July and the Kremlin will pursue to lift or, at least, weaken sanctions imposed by the European Union. It needs to be mentioned that Austria has now one of the pro-Moscow political coalitions in Europe. In addition, it was also about some image issues: Mr Putin knew that he would be well received in Austria that is not associated with intra-EU conflicts (such as Hungary).

It was not a coincidence that the visit had been marked by the 50th anniversary of Russian gas deliveries to Austria. Both the Austrians and the Germans advocate for Russian gas import as well as they defend the Nord Stream 2 project where the state-owned energy company ÖMV is one of the investors. The project has been widely criticized by international players. The Americans push to pause the investment whereas Ukraine and Central Europe are against such a solution. It does not come as a surprise that the Kremlin seeks every positive statement from European leaders. After the talks with Mr Kurz, Russian President declared that Austrian Chancellor had confirmed that "Austrian authorities assessed the project as purely economic one".

Austrian President Alexander Van der Bellen stated that there was no point in changing Russian gas to American LNG because it was "two or three times more expensive". Mr Putin's visit to Vienna was also an occasion to announce that Russia's gas giant Gazprom and Austria's ÖMV energy had signed a new deal to extend Russian gas supplies to Austria until 2040. The hitherto agreement was in force until 2028. Gas is one of the most important components of the economic cooperation between both countries. Interestingly, the Kremlin particularly hopes for its development since the country struggles against arduous sanctions and economic slowdown. Putin boasted that Russia's trade turnover with Austria increased by 40.5 percent in 2017. In terms of direct investments, Russia is the second largest foreign partner in Austria (20 billion euros per year), giving way only to Germany. During the visit, representatives of both countries signed a number of interstate economic agreements.

In addition, political issues were no less important. Since the Cold War period, Austria has been considered as one of the most important European "doves" when it comes to policy towards Russia as evidenced by Austria's reaction after the recent poisoning of a former Russian spy. Unlike most EU countries, Austria opted not to expel any Russian diplomats over the Skripal case. Austria has been governed by the alliance of the People's Party (Kurz) and the Freedom Party (Strache). The former is positive towards Russia mostly for economic reasons whereas the latter support Moscow also for ideological reasons. The Freedom Party is one of the most pro-Russian political forces in Europe. They represent both Eurosceptic and anti-liberal views. Interestingly, they have even signed a cooperation agreement with the ruling United Russia party.

On July 1, 2018, Austria takes over the Presidency of the Council of the European Union. Moscow would like Vienna to become a bridge between West and East, especially when it comes to lifting sanctions. Mr Kurz declared that even if he supported the EU sanction against Moscow due to European solidarity, he also counted on the progress that would allow the restriction to be gradually relaxed. Such a state of affairs is tightly connected with the improving situation in the Donbass, which can be promised by Mr Putin himself (as evidenced by the UN peacekeeping mission). Next week, Mr Kurz is due in Berlin for a meeting with German Chancellor Angela Merkel, with whom he may discuss the aforementioned issue.

According to Mr Putin, both the European Union and Moscow have interest in lifting EU sanctions against Russia. The decision to extend EU restrictions must be taken unanimously every six months. The Kremlin is pursuing to build a coalition of countries that would support the idea of relaxing the sanction. It needs to be added that Austria's neighbor, Italy, is now governed by the populist Moscow-friendly FiveStar Movement (M5S)–Northern League government. Both parties have called for the sanctions regime to be lifted. The issue has already been discussed by Italy's new prime minister Giuseppe Conte.


SOURCE: KREMLIN.RU

6 June 2018

PUTIN'S IMPORTANT DECLARATION: WHAT WILL HE DO IN 2024?

According to Russia's constitution, Vladimir Putin is bound to leave the Kremlin when his current term ends in 2024. Nevertheless, the law may be subject to changes. Such an idea has been recently suggested by Chechen lawmakers. Mr Putin claims that he has no intention to amend the constitution in order to satisfy his own needs. But does he? As vaguely stated by Russian President, he may envisage such a solution. But it does not really concern the idea to lift the limit on two consecutive presidential terms.

During a meeting with the heads of world information agencies in St. Petersburg, Mr Putin announced that he intended to abide by the constitutional principle that one person could not serve more than two terms in a row. He also reminded that such a situation took place in 2008 when he left the Kremlin."I intend to follow this rule in the future", he announced. Will this situation refer to the period of the so-called tandemocracy when Dmitry Medvedev obediently stepped down to allow Vladimir Putin to serve next presidential term? Following his re-election on March 18, Mr Putin assured that he had no intention to do so. He added that there were no plans to change the constitution "at that moment" and he laughed off a suggestion that he could take a six-year break before moving to reclaim the presidency in 2030 as he would be 77 years old then. Thus it is likely that Mr Putin will leave office; nevertheless, at the same time, Russia may undergo a system change that will eventually transfer the real power to another official, for example the prime minister (as in the chancellor system) or it would be necessary to establish a new body.

A wave of speculation on the potential situation in six year was triggered by Ramzan

Kadyrov. Nevertheless, when Chechnya announced the plan in April, Kremlin spokesman Dmitry Peskov said that the president did not have the issue of changing the constitutional law on the presidency on his agenda.

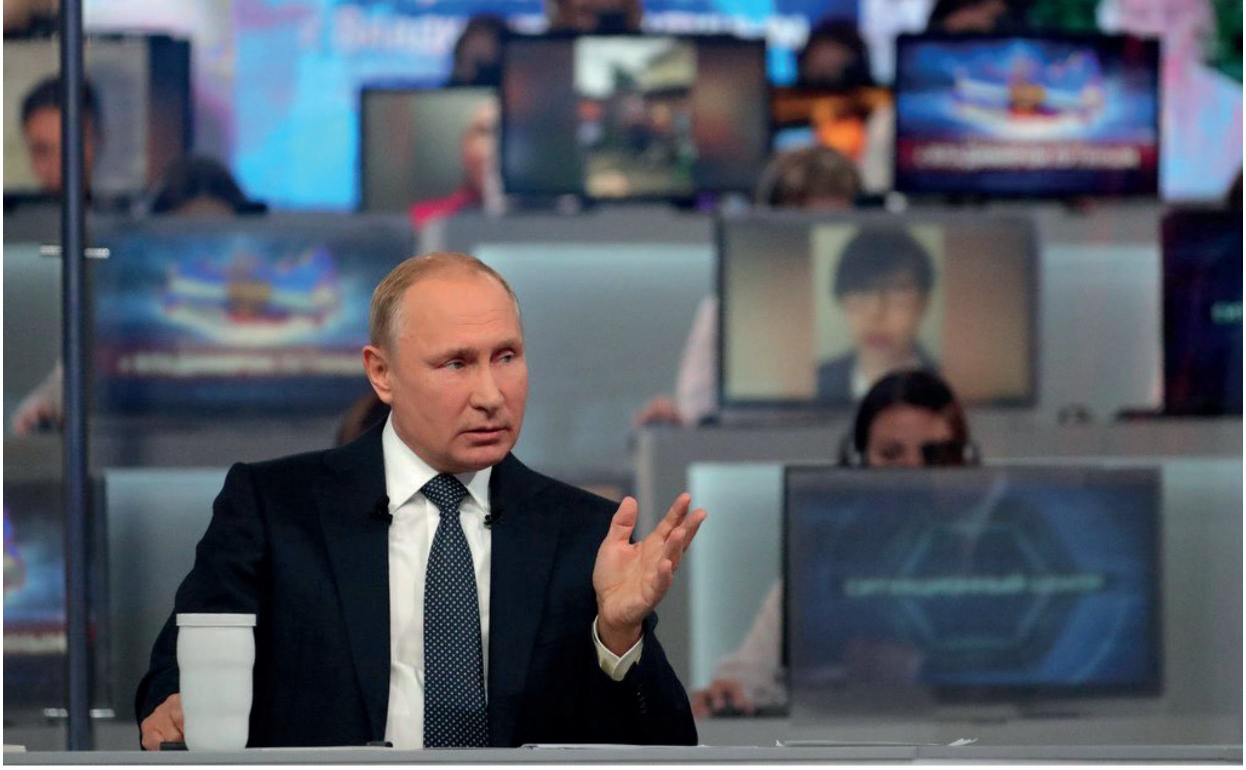
On May 11, the Kremlin stated that the draft prepared by the Chechen parliament had not been Mr Putin's personal intention. However, the parliament of the Chechen Republic decided to draft a bill enabling one person to serve as Russia's president for three consecutive terms. The proposal has already been forwarded to the lower house of Russian Parliament. On May 18, the content of the bill was published on the website of Russia's State Duma. Mr Kadyrov has argued that there was no alternative to Mr Putin and if there was a law that prevented the incumbent president from serving till the end of his life, it shall be changed as soon as possible. Such a declaration of the head of the Chechen Republic aims to test the reactions of the society as well as the political elite. And Mr Kadyrov hopes that Mr Putin will remain in power for many years to come. There was even a special personal relationship between the two politicians. If Vladimir Putin loses his power in the country, Kadyrov may have serious problems; the latter has implicitly threatened that any attempt made by Moscow to deprive Chechnya of its autonomy may possibly result with the "third Chechen war".

8 June 2018

WAR WITH UKRAINE: PUTIN RESPONDS (NOT ONLY) TO THE RUSSIANS

For many, Vladimir Putin's annual live television call-in show did not appear to be surprising. The broadcast's main idea reflects the foreign, internal, security and economic policies carried out during the new presidential term. Also statements on the Ukrainian conflict aroused some strong emotions. Some observes even claim that Russia's president has threatened to destroy Ukraine's statehood. But is that really true?

On June 7, for the sixteenth time in history, Vladimir Putin answered questions from citizens as well as he addressed their requests and complaints. At the same time, it was also the first Q&A show during Mr Putin's new presidential term. One of the questions concerned the conflict with Ukraine; it came from a Russian citizen from the occupied Donbass expressed his concern that Ukrainian army might attack during the World Cup that will be held in Russia from mid-June to mid-July. Mr Putin expressed hope that "such provocations will not take place" and he warned that "if it happens, this will have very drastic consequences for Ukrainian statehood as a whole". He also announced that Russia would continue to show its support to the so-called "people's republics" since the Ukrainian authorities were unable to solve the problem of these territories. In addition, Mr Putin stipulated that his country would do everything for the situation in the east of Ukraine to be resolved within the framework of the Minsk process. The president's statement was immediately commented on by Ukraine's Secretary of the National Security and Defence Council Aleksandr Turchynov. He claimed that his country would remain independent regardless of, as he named it, "maniacal desires of imperial revanchists."



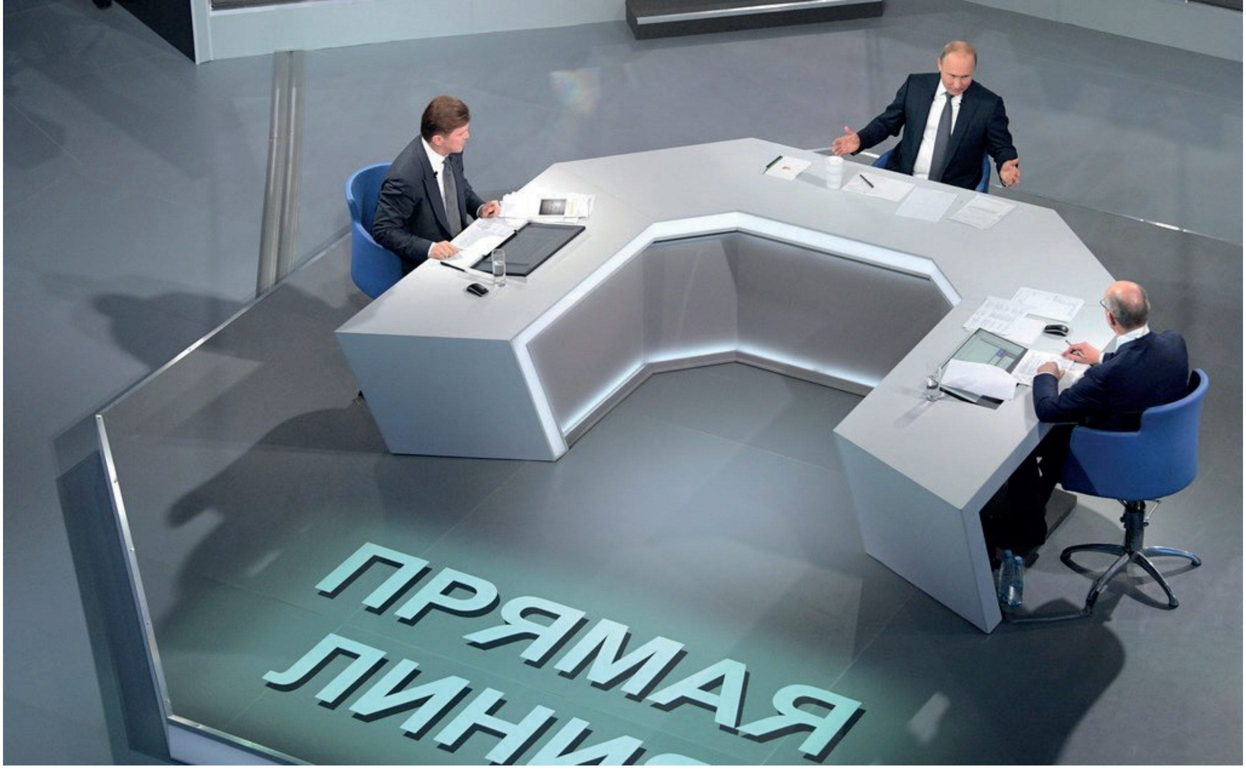
SOURCE: KREMLIN.RU

Each question, which was asked during Direct Line annual show, had been carefully selected. So there is no doubt that the Kremlin waited for a question about the alleged threat of a Ukrainian invasion on the occupied part of the Donbass. Mr Putin's response was balanced; Russian president presented himself as a responsible statesman who does not take on any "provocation", nevertheless, if the threat was real, he would be able to provide a strong answer (as evidenced by his very strong wording: "very serious consequences for Ukrainian statehood"). The Kremlin sends a signal to the West that the Ukrainian authorities are responsible for problems while Moscow pursues to establish a dialogue within the framework of the Minks agreement. It can be considered as part of the informational operation aiming to prepare the world for the next escalation of the conflict in Donbass. In this case, there occurred a classic reversal of the Russian propaganda. If there is a provocation, it will be started by the Russians. And it should be remembered that Russia's tradition is to cause armed conflicts during world's major sports events. And possible escalation of fights will not be tantamount to the outbreak of a full-scale war. It is not in Russia's interest as the country has been recently trying to warm up its relations with the West. It seems that any change in Russia's policy towards Kiev may possibly take place until after the elections in Ukraine while the direction of this change will mainly depend on the voting results.

9 June 2018

WAR IN SYRIA: PUTIN'S WORDS STAINED WITH BLOOD

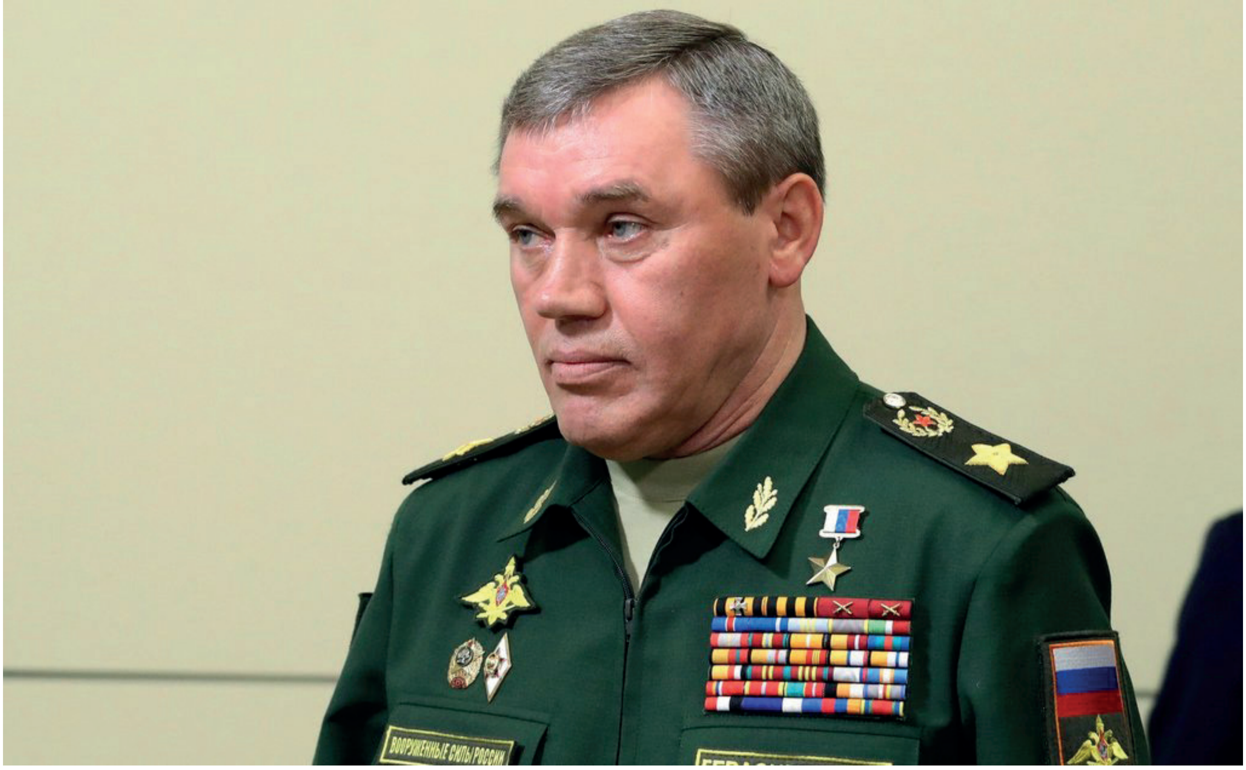
According to Vladimir Putin, Russia will still be one of the main participants of the Syria. Russian president was asked about the country's participation in the conflict during his annual Q&A show. The declaration was followed by the raid of Russian aviation in the Idlib province.



SOURCE: KREMLIN.RU

On June 7, Russian president answered questions from citizens in his annual live television call-in show. One of the issues concerned the war in Syria. Putin declared that he was currently not planning to withdraw all of troops from the country. The Russian army will stay there as long as it benefits Russia. Putin did not specify what circumstances would lead to the withdrawal of the Russian contingent. The Kremlin has already announced the actual end of the Syrian operation (launched in autumn 2015) at least twice: in spring 2016 and at the end of 2017. In both cases it turned out that the alleged reduction of military involvement in Syria was only the rotation of a part of the forces.

Speaking during the broadcast, Putin assured that the Russian army was not going to "permanently" expand its infrastructure in Syria. Many years ago, Moscow and Damascus signed long-term contracts for the lease of air base in Khmeimim and sea base in Tartus. Syria is Russia's only bridgehead in the Middle East and until its presence is secured, Moscow will not withdraw its troops from the country. Putin's words on the decision to continue Russia's military presence in Syria were additionally emphasised by a night raid that occurred just a dozen hours after the broadcast. Russian air forces bombed the Zardana village in the northwestern province of Idlib, killing at least 38 people. The death toll is likely to increase as dozens were injured and many people are in critical condition. This is the most bloody single air attack in this region since March.



SOURCE: KREMLIN.RU

13 June 2018

TOP U.S. AND RUSSIAN GENERALS MEET FOR TALKS

The top U.S. military chief held a meeting with his Russian counterparts in neutral Finland. Nevertheless, it does not mean any change in the military cooperation of both countries, which can be now considered as very limited one. The main purpose of the talks was to clarify the recent tensions in Syria as well as to discuss the need to improve information exchange mechanisms in order to avoid potentially dangerous situations. It is the second meeting of high-ranking militaries of the two countries that has lately taken place. In April Gen. Valery Gerasimov met with NATO's top military officer, U.S. Army Gen. Curtis Scaparrotti in Azerbaijan.

Both countries' armies remain in direct contact due to their military presence in Syria as the most sensitive geopolitical zone. The Russians support the Assad regime while the Americans provide their military assistance to the branches of the Kurdish-dominated SDF coalition. The unofficial line between both countries runs along the Euphrates River. In recent months, the region has witnessed a series of events that increased military tension between Russia and the USA, including the massacre of Russian mercenaries in the Euphrates valley, American raids on Assad's facilities, Russian threats to the American army as well as dangerous actions performed by Russian aviation. Such state of matters clearly undermines the mechanism of mutual informing and warning about armed activities in Syria that had been developed much earlier. Such was the main topic of the talks held between the heads of the U.S. General Staffs in Finland.

The meeting between Gen. Valery Gerasimov and Gen. Joseph Dunford took place on June 8. The conversation concerned such topics as for example regular information exchange in order to "avoid military incidents" between armies of the USA and Russia stationed in Syria. A brief statement on the Joint Chiefs of Staff website informed that the generals "have undertaken efforts to improve operational safety and strategic stability." According to the U.S. statement, "both leaders recognize the importance of maintaining regular communication to avoid miscalculation and to promote transparency and de-confliction in areas where our militaries are operating in close proximity." Russia's Defense Ministry informed that military generals had discussed the issue of reducing tensions and guaranteeing security in Europe. It was already known in advance that the meeting would not result with increased military cooperation between Russia and the United States. The Pentagon announced before the meeting in Helsinki that closer military cooperation between Washington and Moscow was impossible due to Russia's hostile activities in Georgia and Ukraine. Plans to build mutual trust between the two countries are additionally hindered by Russian air provocations near American borders.

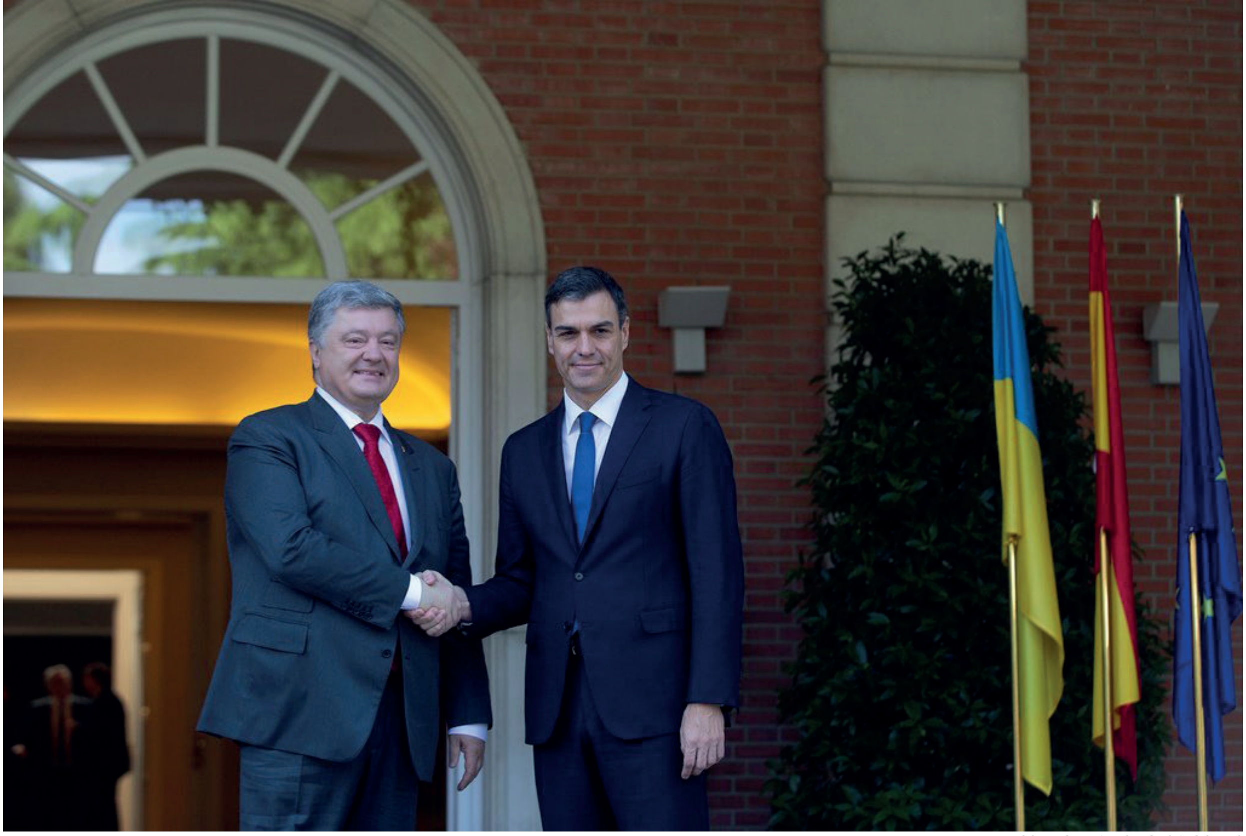
Both military leaders had separate meetings with Finnish President. "Finland is happy to provide facilities for this kind of meetings", Sauli Niinisto said. Finnish army command published a statement, saying that the talks concerned mostly such topics as preventing the escalation of regional conflicts, including those in Syria and Ukraine. A day before his meeting with Gerasimov, Gen. Dunford met with Finland's Chief of Defense Jarmo Lindberg. Both military leaders discussed cooperation between the United States in Finland. In recent years, both Helsinki and Stockholm have tightened their military cooperation with the Americans.

13 June 2018

SPAIN'S NEW EASTERN FOREIGN POLICY IS YET TO COME

The fact that an officer known for his pro-Russian views was appointed Director General of Spain's Department of National Security has recently caused a wave of speculation that thanks to such a nomination, Madrid might introduce more favourable policy towards Moscow. However, it is too early for such claims. There is no doubt that Spanish socialists have always been closer to Russia than right-wing politicians, but the current political situation in the Iberian Peninsula seems so complicated that the final conclusions could be drawn only after the elections scheduled to occur next year.

Pedro Sanchez was sworn in as Spain's new prime minister on June 7. He became the head of the government after Mariano Rajoy (former prime minister and People's Party leader) was voted out of office in a no-confidence motion. The composition of the new cabinet is considered as strongly leftist and "progressive"; the Spanish Socialist Workers' Party (Partido Socialista Obrero Español, PSOE) once opposed Spain's entry into NATO structures whereas other left-wing parties in the countries of Southern Europe have traditionally been skeptical about the alliance with the USA (instead, they have opted for cooperation with Russia). In this context, the information that the Prime Minister has chosen the well-known Kremlin sympathizer as the candidate for the office of the Director General of the Department of National Security (Departamento de Seguridad Nacional, DSN) must have caused some concern. The above-mentioned institution is the most important body that supports the government's work in terms



SOURCE: LAMONCLOA.GOB.ES

of security while its president is the prime minister's immediate advisor on these issues.

Spanish Army reserve colonel Pedro Banos is known for his pro-Russian views; he has also criticized NATO and the USA. He regularly performs as an expert in Spanish-speaking programs in two major media tools of Kremlin propaganda: RT TV and Sputnik news agency. Banos also believes that Russia has the full right to build its zone of influence in the closest neighborhood, praises Putin's government and calls for cooperation with Moscow in the fight against Islamic terrorism. The colonel denied that the Kremlin was involved in the assassination attempt of Russian ex-spy Sergey Skripal. He also claims that Russia did not support separatist mood in Catalonia by the use of social media, which has been the reason for the protests against his candidacy led by right-wing groups.

The new government's policy towards Russia remains unknown regardless of the final result of Banos's candidacy. Nonetheless, it is difficult to expect that Spain's new cabinet will continue the policy of its predecessors; Rajoy's government welcomed the idea of strengthening NATO's eastern flank as well as his ministers began to increase military expenditures. So the new left-wing government will be rather unlikely to strengthen the Alliance; the cabinet will also focus on the issues that are typical for southern Europe such as the question of African immigrants. In addition, Sanchez has actually limited room for maneuver until the end of the year as he is obliged to act within the budget adopted by his predecessor. New parliamentary elections will be held in May 2019 and it is difficult to predict the composition of the political forces. It needs to be stressed out that Sanchez's nomination was possible due to the votes from the left wing and increasingly pro-Russian Podemos party as well as from the Basque and Catalan separatists. Spain is unlikely to follow the example of Italy when it comes to its attitudes towards Moscow. After the first international meeting held by Sanchez as Spain's new prime minister (the Ukrainian president's visit was planned much earlier), Petro Poroshenko announced that the new government supported Kiev's position on the UN peacekeeping mission in Donbass as well as he advocated the idea of extending EU sanctions on Russia. It is also essential how the Kremlin-dependent media report and comment on Spain's current political situation; it is unlikely for Russia to make Spain its new ally within the EU and NATO structures.

SOURCE: GAZPROM

14 June 2018

EXCISE DUTIES ON GASOLINE: RUSSIAN GOVERNMENT'S FAILURE

The Russian authorities are currently considering reducing the excise duties on gasoline and diesel fuels; the increase in prices was expected to constitute a part of wider tax changes in the energy sector. The government was afraid of social discontent that might be caused by the sharp rise in prices at gas stations. The decision will trigger decline in budget revenues from the reduction of excise taxes on fuel as oil companies are overtly against paying more. Nevertheless, the policy led by such oil giants as Rosneft contributed to lower amount of petroleum products on the domestic market. However, the solutions adopted by the government are conducive to the largest market players and, at the same time, endanger small independent gas station chains.

The issue of high prices at gas stations were not mentioned at Vladimir Putin's annual live call-in show, in which the Russian President played the role of a "good tsar". Mr Putin considered recent rapid growth in gasoline prices unacceptable and he promised to stabilise the situation on the market. However, due to his consent, the government has taken measures that have significantly contributed to the rise in retail prices on the Russian petroleum market.

According to official data, from January to the end of May, retail fuel prices rose by 7-8 percent, with inflation of 1.6 percent. The biggest increase in prices was noted in May. The worst situation could be observed in the Far East and Moscow where normal (95 octane) unleaded petrol cost even 47 roubles per litre. The problem is therefore as much political as it is economic. In mid-May, Russian truck drivers took part in massive protests against the new taxation. Strikes took place in many Russian regions, from Irkutsk to Dagestan. Interestingly, in some of them, the protests were backed by local authorities. Such increase in prices was caused not only by the higher price of oil on the global market (its share in the price of fuel in Russia is estimated at 6 percent) but also by rise in excise duties (the share of taxes in the fuel price amounts to 65 percent). The government planned to introduce necessary changes step by step. The first one took place in January while the next one was planned for July. After the increase in excise duties in January this year, oil companies did not intend to rise prices until the elections so Russian citizens could observe the negative impact after Mr Putin's re-elections, and more specifically, his swearing-in ceremony. The higher excise duty has also been caused by oil companies. High oil prices around the world along with a relatively weak rouble exchange rate mean that large companies prefer to export their products (for dollars) instead of selling them on the domestic market (for roubles). Such practices have been carried out by Russia's state oil giant Rosneft, which had been even ordered by the country's Federal Antimonopoly Service (FAS) to change the sales policy. Nevertheless, Rosneft has already claimed that such a solution would not be introduced so quickly due to the planned repairs in its refineries.

On May 22, the government decided to reduce excise duties from June 1. However, such information did not prevent prices from rising to the next level. So after a week Deputy Prime Minister Dmitry Kozak, who is in charge of energy issues, held a meeting with chiefs of oil companies. The latter promised to reduce prices at the gas stations but they urged to reduce excise taxes on gasoline and diesel fuels. The decision to reduce excise duty rates for motor gasoline by 3,000 roubles and for diesel fuel by 2,000 roubles will come into effect from June 1, 2018. Thanks to such step, average gasoline prices in Moscow fell for the first time until the beginning of March. It is possible that the planned increase in excise duties from July 1 will not take place; instead, the rate of excise tax may even drop. But the agreement on the freezing fuel retail prices concluded between the government and oil companies may eventually harm the oil sales market. If the government does not take additional steps, the majority of independent gas station chains may be closed within a year; as a result, it will lead to the market monopolization while fuel price might skyrocket to 100 roubles per litre, warns the Independent Fuel Union, the organisation that brings together private gas station owners. So they suggested that the government released the retail price for fuel or switched to manual management in the wholesale trading.

SOURCE: GAZPROM

14 June 2018

UKRAINE HITS GAZPROM'S EUROPEAN ASSETS

Russia's Gazprom has not fulfilled the decision of the Stockholm arbitration tribunal. According to the final verdict announced in February, the Russian company will have to pay Ukrainian state-owned energy firm Naftogaz 2.56 billion dollars of compensation. The enterprise has not met its obligations yet and Naftogaz demanded the execution of the court's decision in all European countries where Gazprom has its assets. In this way, the Ukrainians seek to get the money owed by the Russian giant. So far, such situation has not affected Gazprom's operational activity; nevertheless, it has serious impact on the company's image, which may even lead to losing Russian assets all around Europe.

On May 30, Swiss court bailiffs began a census of assets in the offices of Gazprom's subsidiaries: Nord Stream AG and Nord Stream 2 AG. A week later, Gazprom confirmed that its assets had been frozen in the Netherlands; such an operation has been carried out by a Dutch court at the request of the Ukrainian firm. In this way, Naftogaz launched a recovery of Gazprom's debt within the framework of the award of the Stockholm Arbitration. The court obliged Gazprom to pay Naftogaz 2.6 billion dollars for violation of the gas supply and transit contracts. The Russian company has already filed a request with the court of appeal. The problem is that in 2009 both companies signed a contract on the gas sale and its transit to Ukraine, in which Gazprom agreed to include a formula stating that any decisions taken by the Stockholm arbitration tribunal are final, are final and binding for both parties as well as they cannot be subject to appeal. Gazprom's only solution is to play for time since such is the Kremlin's will. The company has no legal options to ignore the court's decision and thus it is obliged to reimburse all costs to Naftogaz.

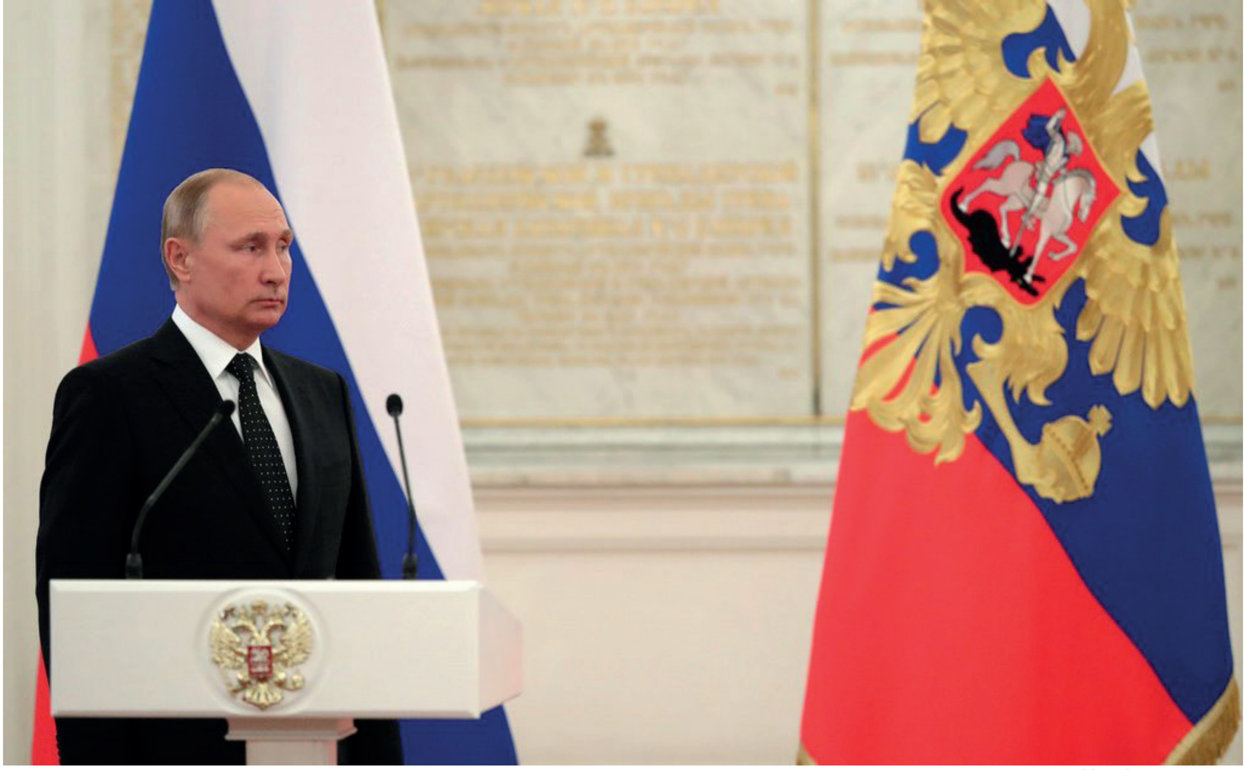
Kiev has already announced that it would not limited to Russian energy giant's assets in Switzerland, the United Kingdom and the Netherlands where it launched a recovery procedure of Gazprom's debts. And the company is in possession of numerous subsidiaries in Europe so many of its assets can be frozen. As for now, the company faces the imposition of interim measures on the shares of its subsidiaries, which will probably not affect Gazprom's operational activity. Gazprom's delay will result with considerable interests whereas its assets will be frozen as well as, in some cases, they may be sold, and the profit will be transferred to Naftogaz. Gazprom has never had similar problems before so it does not come as surprise that it seeks to threaten the Ukrainian company. Russia's Energy Minister Alexander Novak mentioned that Gazprom might even restrict gas transit through Ukraine. Such a state of matters confirms that any decisions on the implementation of the award of Stockholm Arbitration (and probably in many other cases) are made not only in Gazprom's headquarters (as the company disposes of financial reserves to pay off its debts) but also in the Kremlin.

15 June 2018

NO MAJOR CHANGES IN THE KREMLIN. FSB OFFICERS JOIN PUTIN'S ADMINISTRATION

On June 13, Vladimir Putin issued a package of decrees on nominations and dismissals in his presidential administration. In fact, he reappointed the entire management. Interestingly, Mr Putin decided to fire his aide in charge of personnel as well as he appointed two siloviki who had hitherto served in the FSB structures. In turn, such presidential advisors as Yury Ushakov and Vladislav Surkov will retain their positions; such a situation does not mean any revolution in the Kremlin's foreign policy.

The appointment of the new presidential administration constitutes the second (after forming the cabinet) important element of the new term of office of each president. On June 13, Vladimir Putin signed executive orders on major staff and key officials of the Presidential Executive Office. It was expected that any decision would be made sooner but, as in the case of appointing a new government, it was postponed until the last moment. The composition of the new administration was revealed only a month after the start of Mr Putin's new presidential term. It was told that the Russian government had not experienced any revolutionary changes; the same can be now said about the presidential administration. It is obvious that the Kremlin will strive to continue its policy. Major changes were introduced in the summer 2016. Even the management has not been touched with any substitutions: Anton Vaino will be still the Chief of Staff; the new administration will also include his two deputies: Alexei Gromov and Sergei Kiriyenko. Both of them (as well as Mr Putin's spokesman Dmitry Peskov) were said to leave the Kremlin in order to get involved in business activity. Contrary to many rumours that have appeared in the media, also presidential advisers will retain their positions in the Kremlin. Among them, there are such officials as Yury Ushakov (Putin's assistant for foreign affairs), Vladislav



SOURCE: KREMLIN.RU

Surkov (President's aide for Ukraine), and Andrei Belousov (presidential advisor for economy). The fact that Mr Surkov managed to keep his post seems particularly important for the West. As the Kremlin's representative, he is responsible for conducting talks on Ukraine with the Americans; in addition, he enjoys large influence in the occupied part of the Donbas. His presence at Mr Putin's new presidential administration may mean that Russia will maintain its current position on Donbas; moreover, there will be no personnel changes in the so-called "people's republics".

It may come as a big surprise that Evgeniy Shkolov has been dismissed from the post of the President's main aide in charge of personnel policy and anti-corruption. He decided to leave the Kremlin and start a business career in the board of directors of Russia's state-owned electric power company. It is very likely that the supervision over human resources and siloviki in the Kremlin administration will be taken over by a new presidential assistant Anatoly Seryshev. Previously, he served as deputy head of the Federal Customs Service as well as he was changed of the FSB structures in Karelia. Mr Shkolov has close business relations with former Chief of Staff of the Presidential Executive Office Sergei Ivanov; moreover, he apparently could not get along with Mr Vaino who was appointed the head of the presidential administration in August 2016. In the years 1990-2011 Mr Seryshev served in the security service in the Irkutsk region while in 2011-2016 he was in charged of the FSB structures in Karelia where he met Nikolai Patrushev. And it is probably that his impressive promotion to the current position could have been achieved thanks to the recommendation from the Secretary of the Security Council of Russia. The vacancy left by Konstantin Chuychenko, who has been appointed deputy prime minister, has also been filled. Such important position has been assumed by FSB General Colonel Dmitry Shalkov. Nevertheless, the President's adviser, Sergey Grigorov, as well as assistants to the head of the state Vladimir Kozhin and Mr Putin's Internet adviser German Klimenko were dismissed from their posts.

SOURCE: MARINES.MIL

17 June 2018

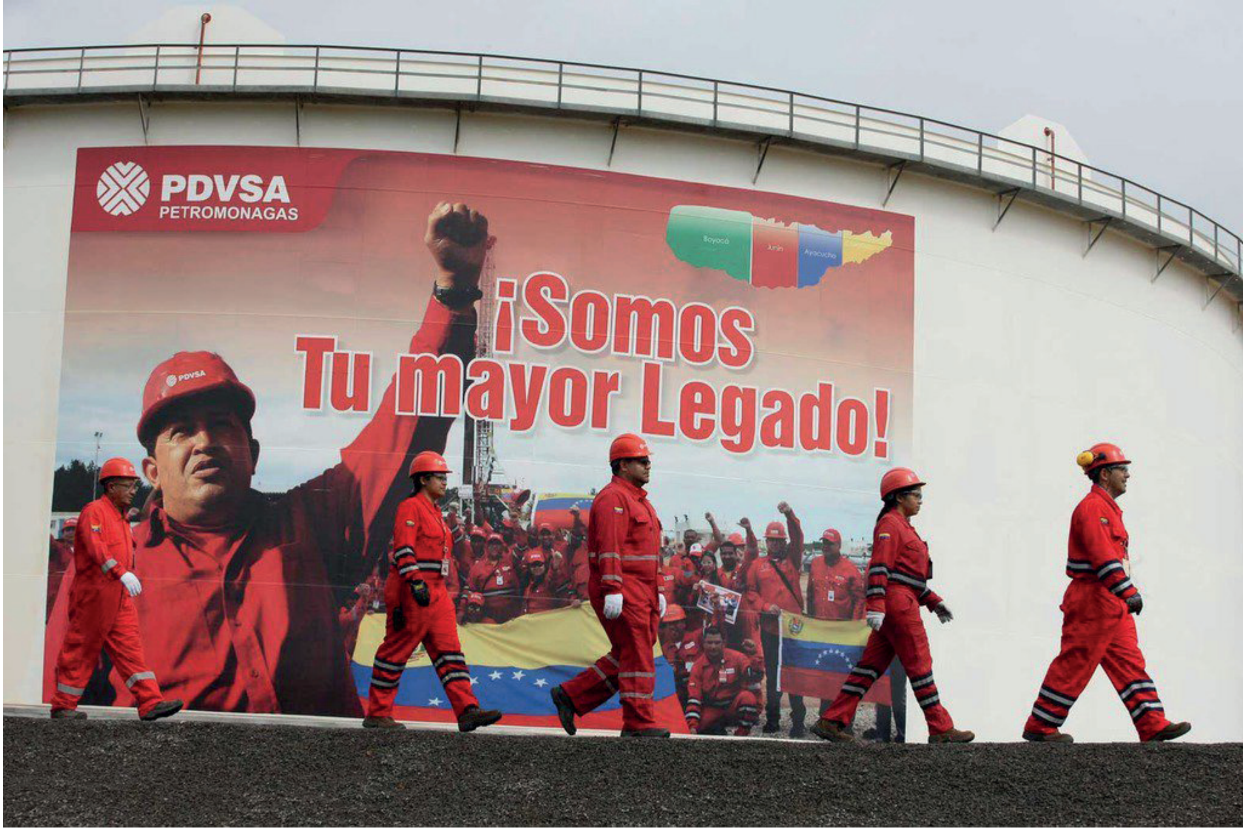
MORE U.S. MARINES TO BE DEPLOYED IN NORWAY? RUSSIA PROTESTS AND THREATENS

The government in Oslo has recently suggested that the United States double the number of U.S. marines stationed in the country as well as deploy them closer to Russia's borders. Such move has already triggered a violent response from Moscow as it strongly disapproves of any steps aiming to strengthen the military potential of NATO countries in the north. For several years, Russia has been intensively developing its military capabilities in this area, mostly by expanding infrastructure facilities as well as increasing the number of troops stationed there. The Norwegian Arctic is very important for Russia as evidenced by the country has recently set up another its fifth territorial military district. So it does not come as a surprise since the region is located very close to the U.S. territory while the North Sea holds enormous oil and gas reserves.

On June 12, Norway's government informed that it would ask Washington to increase the number of American soldiers in the country. Since January 2017, some 330 U.S. marines have stationed in the Værnes Air Base in the central part of the country. The Americans were the first foreign soldiers who began to be deployed in Norway since the beginning of Oslo's presence in NATO. They change every six months as Oslo emphasizes that they are stationed due to the "rotation principle". Now Norway plans to extend the contract for five more years as well as to double the number of troop (700, compared with 330 presently). The Americans would also be deployed in the north of the country, which must certainly annoy the Russians. Norway's Foreign Minister Ine Eriksen Soereide (who also served as Defence Minister in the years 2013-2017) said that additional U.S. troops would be stationed in the Setermoen military base located in the Inner Troms region in the Norwegian Arctic (about 420 km from the Russian border). The government's request in Oslo has already been supported by the parliament. On June 13, Norway's Defense Ministry also announced that the Americans wanted to build infrastructure accommodated up to four U.S. fighters at Rygge Air Base in southeastern Norway (70 km south od Oslo).

On June 13, Russia's North Fleet set out on the Barents Sea for the largest sea exercises since ten years ago. The following day, on June 14, the Russian Embassy in Oslo issued a statement that putting Norway's plan into practice would make the country "less predictable and could raise tensions as it may eventually transform into an arms race and destabilize the situation in northern Europe." They also added that they "consider them to be clearly unfriendly so they cannot go without consequences." The Russians have also argued Norway's claims that the U.S. troops are deployed on a rotational rather than permanent basis are misleading; "the military presence will be continuous, while troops will change regularly", they said. Russian diplomats in Norway also reminded that such actions were allegedly counter to the decision Norway made in 1949 not to allow foreign states to set up military bases on the country's territory until Norway was under attack or threat of attack. Nonetheless, Norway's Defense Minister Frank Bakke-Jensen has declared that the decision did not mean that a permanent U.S. base in Norway would be established. The issue was commented on by Russian Foreign Ministry Spokeswoman Maria Zakharova on June 15. She stated that doubling the number of American troops in Norway as well as deploying them close to the Russian border undermined mutual trust between both countries. She also questioned the legitimacy of the American presence in Norway; she pointed that Oslo constantly repeated that Russia did constitute any threat to the security of the kingdom.

In addition to rotational forces, U.S. marines have at their disposal several large underground warehouses with equipment and weapons (they have been based in specially adapted natural caves) located in the Trondelag region. In October-November, Norway will host the NATO's Trident Junction military drills. All 29 NATO allies, as well as Finland and Sweden, are expected to participate in the exercises that will involve the use of 40,000 soldiers, 70 ships and 130 aircraft.



SOURCE: PDVSA.COM

17 June 2018

ROSNEFT'S PROBLEM WITH VENEZUELA

Venezuela, ruled successively by Hugo Chavez and Nicolas Maduro, has become Russia's main ally in the Western Hemisphere. The alliance appears to be quite costly as Russia actually subsidies Venezuela's socialist-managed economy. Russia's state oil giant Rosneft plays the main role in the alliance while its CEO Igor Sechin has become the principal liaison between Moscow and Caracas. However, the country's dramatically worsening economic situation increases the risk of Russian investments and loans in the local oil sector. The assets of Venezuela's state-run PDVSA concern were in the pinnacle of Western creditors, and Rosneft is no longer interested in paying money to support a bankrupt. Such complete collapse of Venezuelan economy along with the political change in Caracas may even end up with losing billions of dollars invested by the Russians.

According to the International Monetary Fund, the country's GDP may shrink by up to 15 percent this year. Both an economic catastrophe and a political crisis deter foreign investors, even such Venezuela's long-time allies as Russia and China. Companies from both countries have not decided to accept the offer to purchase the refinery in Paraguana. According to earlier plans, Russia's Rosneft would handle the Amuay refinery (with overall capacity of 650,000 barrels per day) while China's Petrochina would take over the Cardon refinery (310,000 barrels). Corporations from Russia and China withdrew from the agreement due to the "terrifying conditions" in which both facilities are located. Both Rosneft and Petrochina have claimed that improving their current situation would involve very large investments that would eventually exceed the budget.

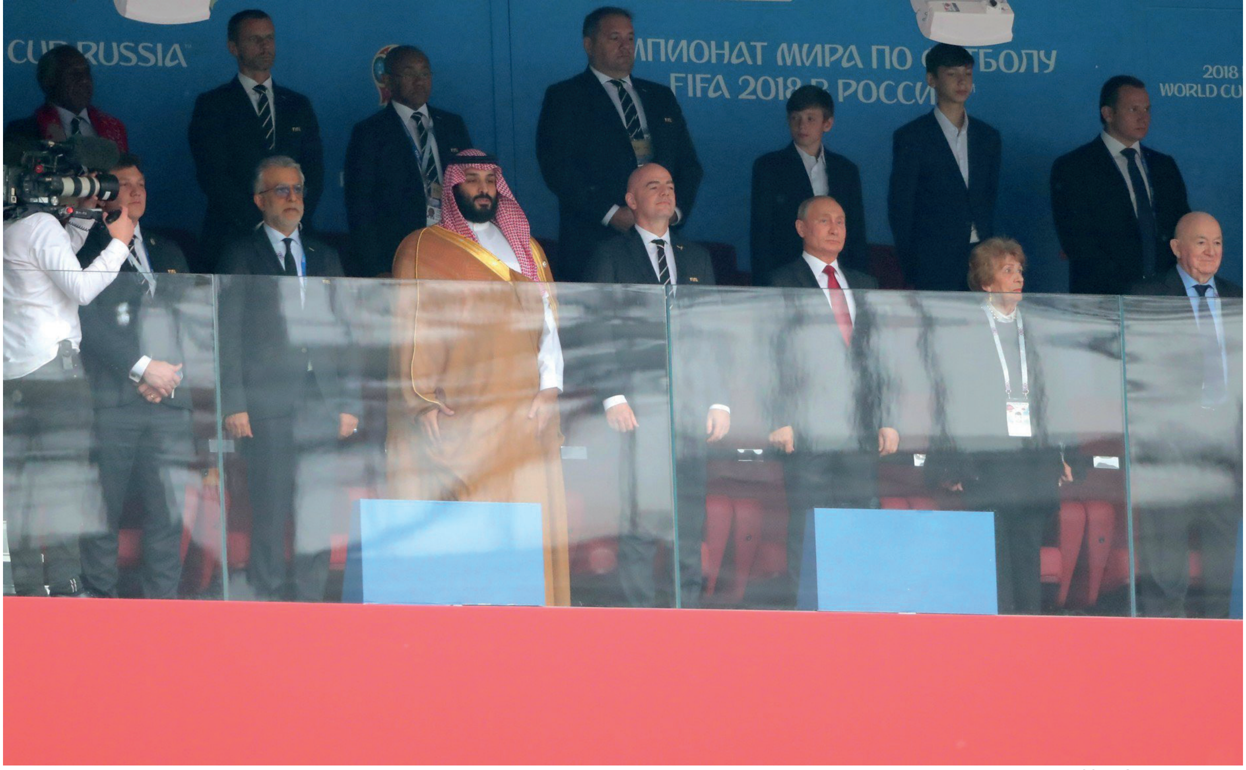
Due to the lack of oil and personnel, Venezuela may even be forced to close the country's three largest refineries. Plunged into deep crisis, the republic is not able to fully use its one of the world's largest oil resources, which means a blow to the main source of the state's income. Venezuela plans to close refineries in Cardon, El Palito and Puerto La Cruz. The first of them constitutes an illustration of bad socialist management model; back in the 1990s, Cardon was part of the largest oil complex in the world and the most technologically advanced refinery. So what are the reasons behind current problems and lack of personnel and raw material? The problems started in 2002-2003 when President Chavez fired 20,000 experienced PDVSA workers. Why do domestic refineries have to struggle with the lack of raw material? According to OPEC, Venezuela produces 1.6 million barrels per day, but the priority is the payment of debts with oil shipments to China, Russia and Cuba.

PDVSA is Rosneft's largest debtor; the company received from Igor Sechin a 5.5 billion dollar loan under the pledge of the Citgo subsidiary that, however, may be seized by a Canadian mining company controlled by Russian investors Vladimir and Andrei Agapov. The problem is that PDVSA is heavily indebted in other companies. A court on the Dutch island of Curacao has authorised the local subsidiary of US oil giant ConocoPhillips to seize 636 million dollars worth of assets held on the island by the Venezuelan firm. The court allowed Americans to confiscate oil or petroleum products as well as PDVSA bank deposits. Conoco has also started the process of freezing PDVSA's assets on the islands of Bonaire, Aruba and St. Estatius; all of them play an important role in the export process of Venezuelan oil. Such situation will result with PDVSA's even more serious problems.

18 June 2018

OIL AND FOOTBALL: RUSSIA AND SAUDI ARABIA TO STRENGHTEN MUTUAL COOPERATION

The opening ceremony of the 2018 FIFA World Cup as well as the tournament's opening match between Russia and Saudi Arabia served as a great excuse for the heir to the Saudi throne to pay a visit to Moscow. Instead of paying attention to the result of the game (Russia beat Saudi Arabia 5-0), Prince Mohammed bin Salman was more interested in oil diplomacy. That is why he was accompanied by Saudi Energy Minister. The first challenge both countries have to struggle with is the necessity to unfreeze the production of the raw material in order to prevent further price increases. However, such solution has already been criticized by Russia's allies: Iran and Venezuela. Also Donald Trump added his two penn'orth to the debate saying that the OPEC+ coalition needs to take into account such powerful player as the United States.

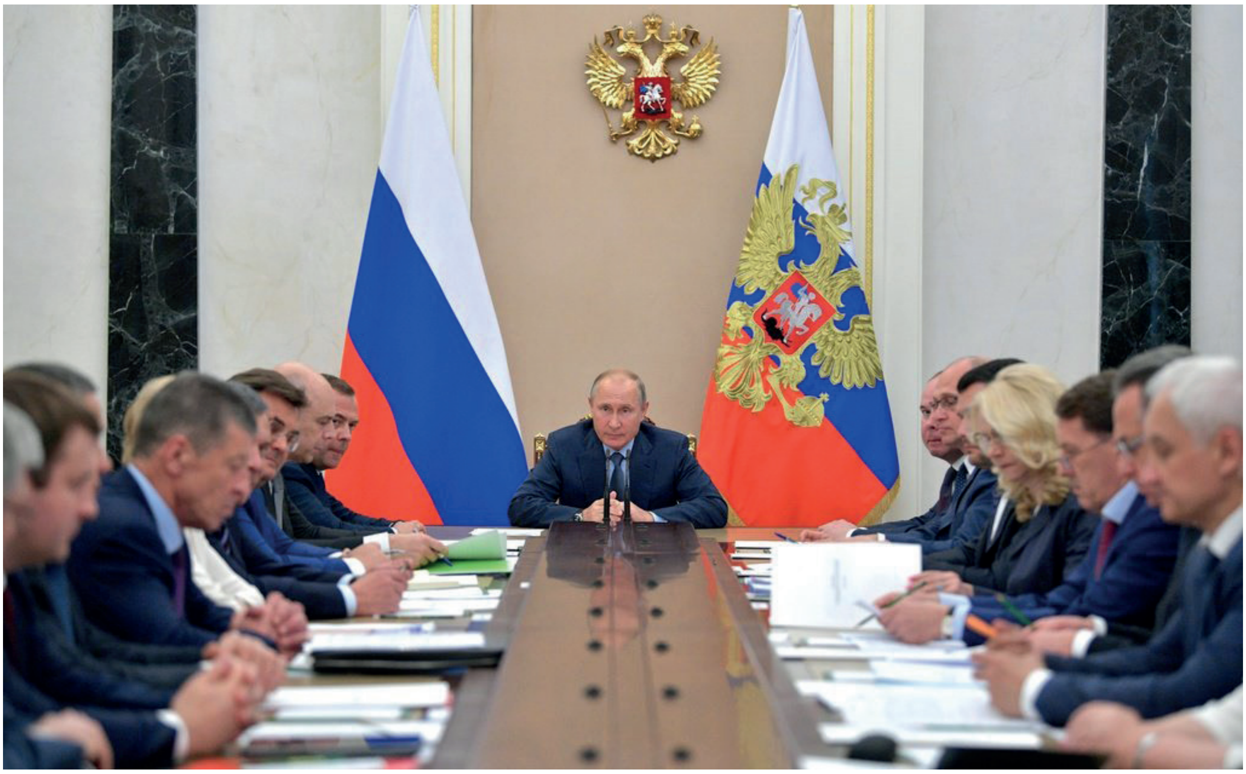


SOURCE: KREMLIN.RU

The Saudis have long signalled their eagerness to strengthen economic cooperation with Russia, which was successfully initiated by the deal to limit oil output. However, Russia is in no hurry to accept further committments (we wrote about it in April this year). Today, it is difficult to predict to what extent both countries will extend their cooperation in the oil sector, which was jointly announced on June 14 by Russia's Energy Minister Alexander Novak and his Saudi counterpart Khalid A. Al-Falih. They have agreed to work on a comprehensive bilateral deal.

In 2016, OPEC, Russia and other non-cartel countries associated in the OPEC+ format agreed to reduce output by 1.8 million barrels a day when prices dropped below 30 dollars per barrel. In 2017, oil prices were rebuilt and stabilised at the level of 50 dollars per barrel; this year, they have already skyrocketed up to 80 dollars. As OPEC's informal leader, Saudi Arabia is determined to maintain a limited supply of raw materials and it would be happy to see crude rise to even 100 dollars a barrel. Nonetheless, Moscow seems to have a slightly different approach. At the end of May, Vladimir Putin announced that they "are not interested in an endless rise in the price of energy and oil". Russia will be satisfied with the price of 60 dollars per barrel, which is clearly below the current average (75-80 dollars). All Russian companies are in favour of increasing oil extraction; nevertheless, it seems that such state of matters is most interesting for Rosneft. Russia's state-owned oil giant, which accounts for extracting 40 percent of Russian oil, claims to be able to increase its production capacity by 150,000 barrels per day in three months.

It is likely that Riyad had to paid Moscow the price for closer cooperation as evidenced by its agreement to increase oil production by 1.5 million barrels a day in the third quarter of 2018. Russia and Saudi Arabia plan to address OPEC structures in this respect. Member of the organisation are scheduled to meet on June 22 in Vienna with the aim of making some decisions on the future of the 2016 agreement. Russia, Kazakhstan and other non-cartel countries will joint the summit a day later. If countries make a decision on increasing oil extraction, it will be tantamount to the same situation that already took place in 2016. "Unfreezing" oil production would apply for a quarter; final decision would be taken in September and a lot would depend on the situation on the market. Such countries as Iran, Iraq and Venezuela are against the modification of the 2016 deal as they are satisfied with higher prices of the raw material and, at the same time, they have no capacity to increase oil production. However, such factors as potential U.S. sanctions on Iran and the crisis in Venezuela are causing concern among the biggest players belonging to the OPEC+ coalition about too high prices, which will induce other entities, especially American shale oil producers, to increase their output. U.S. President Donald Trump blames OPEC for the rise in oil prices. However, Iran and a number of analysts strongly believe that U.S. policy has contributed to oil price growth, which may be perceived as the effect of sanctions imposed on Venezuela and Iran, both of them being OPEC members. Moreover, Mr Trump added fuel to the flame; due to his intervention, the Viennese summit may witness a very hard fight between supporters and opponents of the idea to unfreeze oil extraction.



SOURCE: KREMLIN.RU

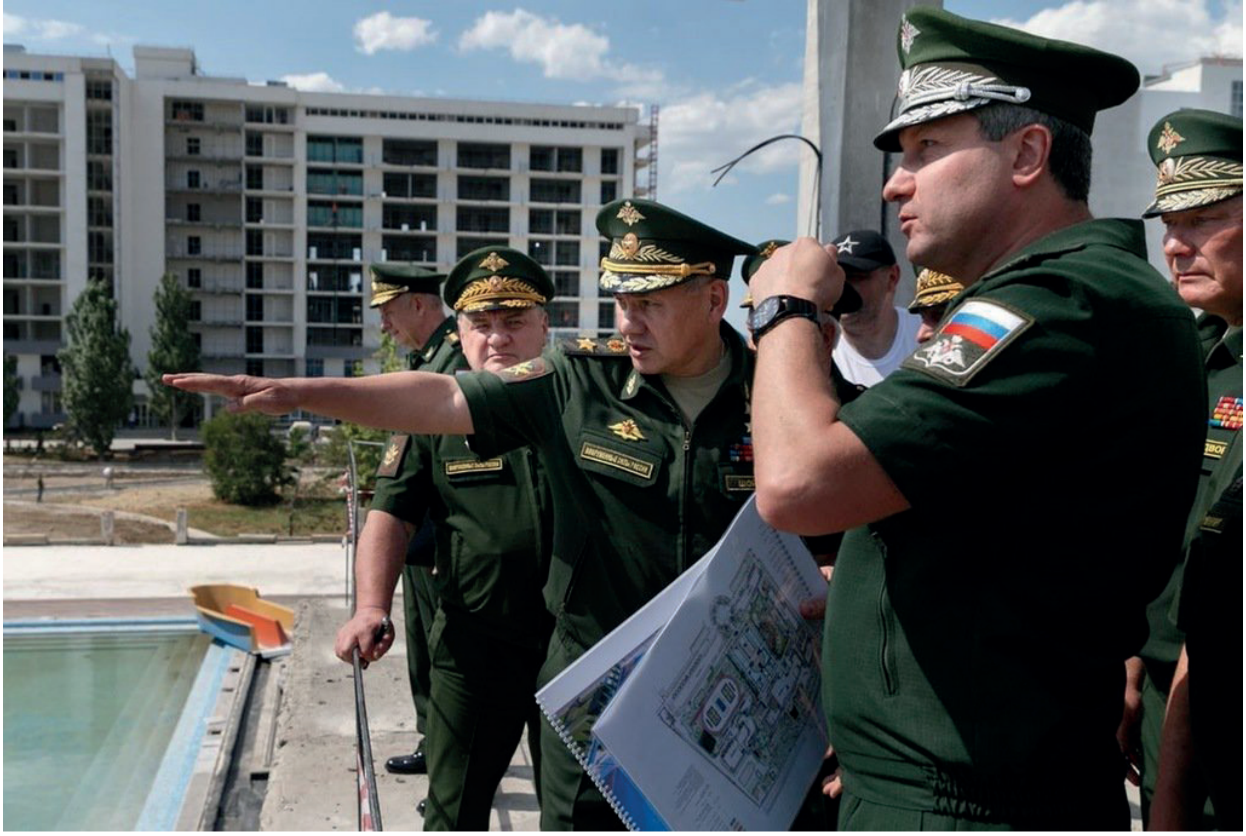
20 June 2018

REGIME'S UNPOPULAR DECISIONS: FOOTBALL WORLD CUP OVERSHADOWS RUSSIA'S POLITICS

The beginning of the FIFA World Cup has appeared to be favorable for Russia and the Kremlin so the country's authorities decided to announce extremely unpopular economic decisions. The Russian government plans to raise the retirement age; in addition, it has intention to increase value-added taxes. In this way, Russia's officials aim to boost state budget as it has been generously used subsidize billions to Mr Putin and members of his inner circle; the funds have been transferred to organize such events as the current World Cup.

So the Kremlin used the sports event as a cover for its unpopular decisions such as the one on increasing the pension age. The bill proposes raising the retirement age from 60 to 65 for men and from 55 to 63 for women. Such a drastic change would constitute a serious threat for many Russian citizens. In Russia, losing one's job at the age of 50 makes it very difficult to find a new one. Until now, many people aimed to survive somehow before they retire. Now they will have to face a way more difficult situation. Moreover, the Russian authorities do not intend to offer anything else instead; they do not plan any tax cuts and they will probably not involve citizens in any retraining programs. Any Russian government has not been so unpopular before so such a result can hardly come as a surprise: 90 percent of Russians are against raising the retirement age. However, the Russian officials were afraid of social discontent. While putting entire responsibility on the government, President Putin cunningly distanced himself from the decision; he also added that he would eventually assess it after a year. To make things worse, the Russian government has proposed raising value-added tax (VAT) to 20 percent from 18 percent. The authorities will probably feel the negative social consequences of the proposals in autumn this year. Russia can feel happy, as it has taken centre stage; it may now take advantage of improving its image all over the world and, at the same time, escape the Western ostracism.

So what may be the consequences of such decisions? First of all, Vladimir Putin does not seem to care about his actual popularity. It basically means that he has no intention to run for president anymore. Such decision will constitute a strong blow to Mr Putin's traditional electorate. In addition, the above-mentioned proposals may eventually result with huge unpopularity of Dmitry Medvedev's government. So Russia's current Prime Minister will not replace Mr Putin as the next president in 2024 as citizens will probably not forget about the decision to raise there retirement age even in five or six years from now. Thus submitting unpopular reforms on Day One of the FIFA World Cup (even though they had been announced much earlier) confirms our forecasts that the current government will not las till the end of this term. It aims to introduce the least popular reforms and then will be replaced by a new government, the one "of the transitional period". Maybe one of its members will even become Putin's successor as the next Russia's president. In fact, he will not wield any real authority in the country. And lastly, if Mr Putin no longer intends to stand as a candidate, there is no use in introducing a law that would limit any president to two consecutive terms. It may potentially mean some amendments to the Russian constitution. The decision has already been taken: the president will be deprived of some of its power while the position of the government and the Prime Minister will be strengthen; there is also the plan to develop the authorities of Russia's Security Council. Such idea has been already envisaged and, interestingly, has not been mentioned by Russian analysts. In fact, for several years, it has held the same competencies as the government, at least in such matters as foreign and security policies.



SOURCE: ENG.MIL.RU

21 June 2018

MISSILES, FLEET AND TRUMP. FOOTBALL WORLD CUP OVERSHADOWS RUSSIA'S POLICY, PART 2

As for its image, the FIFA World Cup opening ceremony could not have the same effects as the inauguration of the Olympic Games in Sochi. The recent event was attended by numerous world leaders who arrived to Moscow mainly from Asia, Africa, Latin America and post-Soviet countries. But even the visit of the heir to the Saudi throne has brought some fruitful results. Nonetheless, apart from conducting "football diplomacy", Russia is clearly flexing its military muscles. What is the reason of such behaviour? The Kremlin once again put Donald Trump first so it does not come as a surprise that Moscow begins to implement its strategy before a planned summit between presidents of Russia and the USA.

As it could be seen in the past, Vladimir Putin takes advantage of large sports events to implement his own geopolitical goals. In 2008, right after the beginning of the Beijing Olympics, Russian forces invaded Georgia. A similar situation occurred in 2014 when Russian little green men were ready to start the illegal annexation of Crimea; the incident had taken place before the Olympic Flame in Sochi was extinguished. A few months later, during the FIFA World Cup in Brazil, the world witnessed the bloodiest stage of the war in Donbas while a Russian missile brought down Malaysia Airlines Flight 17 in eastern Ukraine. Now there is a threat that Moscow will use the global interest in the football event for its own purposes, this time to carry out some other aggressive actions. The day before the FIFA World Cup opening, thirty-six warships, auxiliary vessels, and submarines of Russia's Northern Fleet took to the sea. The larges exercise held over the last decade aimed to emphasize the country's growing military position in northern Europe; at the same time, they constitute a blatant signal for Norway. At the same time, the Russian army held intensive missile exercises; the military drills took place on the western flank of the country (Kaliningrad region) and included the use of Iskander missiles.

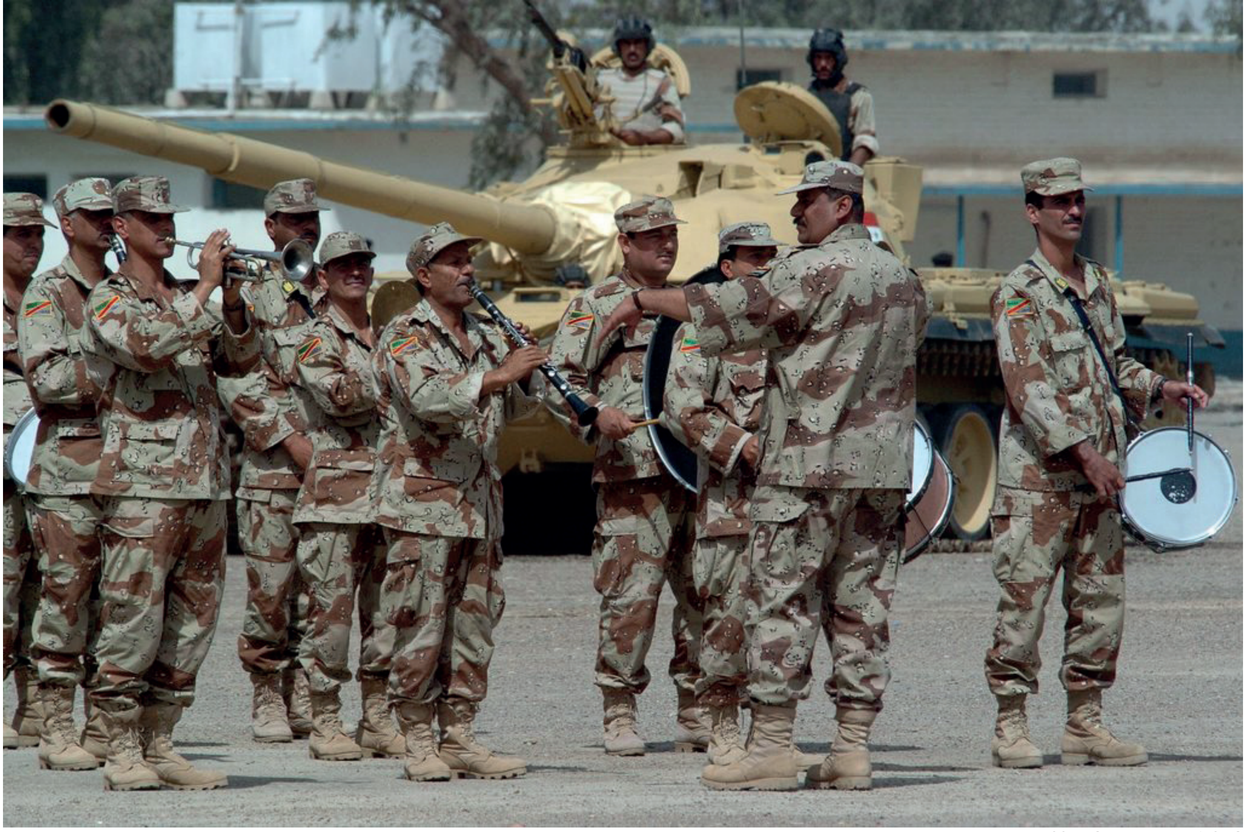
However, such state of matters may be most troublesome for Ukraine. Several rocket ships of the Caspian Flotilla have just been introduced into the Sea of Azov. Also Russian Black Sea Fleet has declared combat alert. Why? Russia has claimed that it only wanted to prevent Ukraine from conducting any activities during the World Cup. Nevertheless, the Black Sea Fleet will maintain such high degree of combat readiness until the end of July, so two weeks after the end of the football championship. Kiev has already alerted that Russia might plan to attack the country after the World Cup. Such a scenario would explain why VladIslav Surkov managed to retain his position as the Kremlin's watchdog over the policy towards Ukraine and the Donbas case. However, Mr Putin is unlike to introduce any offensive strategies right after Russia's image success. Instead, his demonstration of power may be associated with his potential meeting with Donald Trump this summer. Traditionally, the Russians seek to raise the stakes before such important talks; in this way, they may later accept some concessions in the matters of the geopolitical trade. The Kremlin hopes to introduce a new opening in its relations with the White House after Mr Trump's behaviour during the G-7 summit and his recent declarations that he wanted to meet with the Russian President.

23 June 2018

OIL AND TANKS: RUSSIANS STRENGTHEN THEIR POSITION IN IRAQ

New Baghdad government, elected after the May parliamentary ballot, will not have any significant impact on the existing good relations between Russia and Iraq. Instead, it should be expected that the Iraqi army would purchase Russian military equipment while Russian state-owned oil companies will develop their further activities in the country. Recent political events in Baghdad are beneficial above all for Rosneft; the oil giant plans to invest in the autonomous Iraqi Kurdistan region (KRG). The fact that such strongly pro-Iranian forces entered a coalition may be positively received in Moscow: Tehran constitutes one of Russia's allies while Iran's new government may limit American influence in Iraq.

After winning the elections in May, the Sairoon Alliance, led by Muqtada al-Sadr, was forced to seek a coalition partner in order to security a majority and form a government. For many, it came as a surprise when pragmatic Sadr's supporters unexpectedly formed a coalition with the pro-Iranian Fatah Alliance (led by Hadi al-Amiri). This is good information for Russia; nonetheless; most Iraqi political forces, regardless of their

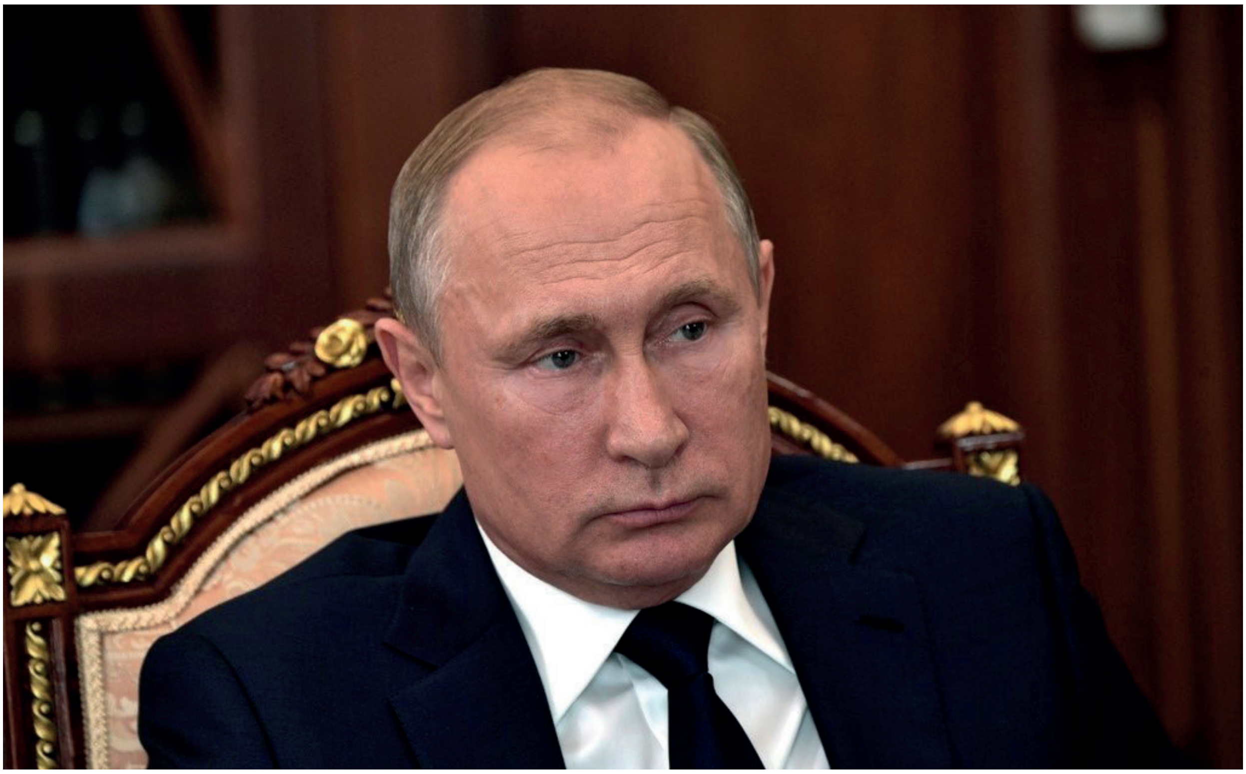


SOURCE: WIKIMEDIA.ORG

ideology and program, claim that the fact of including Russia in their foreign policy brings a lot of benefits. Such a situation is not likely to pose any political threat, as the Russian influence in Iraq seems rather limited. In addition, Moscow constitutes quite a useful partner in both energy and military-technical cooperation. At the beginning of June, the authorities in Baghdad announced that Iraq had received 39 Russian T-90 battle tanks; they also added that Russian specialists trained Iraqi soldiers how to use new equipment. The tanks will be taken by the 35th Brigade of the Iraqi Army's 9th Armored Division. Russian T-90s are supposed to replace its M1A1M Abrams main battle tanks. Now, the latter will be transferred to other military units. Until now, the role of the main liaison between the Sadr's milieu and the Russian authorities in Moscow was assured by the head of Iraq's parliamentary committee on security, Hakim al-Zamili. So when Russia's new ambassador in Iraq, Maxim Maximov, arrived to Baghdad in 2017, during his meeting with Zamili, he heard some praises of Russia, especially for supporting Iraq in its fight against Islamic State. In February this year, al-Zamili mentioned that Iraq would like to acquire the S-400 missile system.

Such rapprochement between the two countries has been caused by the presence of Russia's oil companies Gazpromneft and Lukoil on Iraq's largest oil fields. However, Russia's state oil major Rosneft wants to play the main role. On May 23, the company announced that its subsidiary Bashneft International BV discovered a new oil deposit in southwestern Iraq. However, its main area of activity is mostly limited to northeastern Iraq so it coincided with the territory of the autonomous Kurdish region. Due to deals concluded with its government, Rosneft is now the largest oil company in Kurdistan. The Russians spent a lot of money on purchasing oil, exploiting deposits and controlling oil pipelines that connect the Iraqi Kurdistan with Turkey. Such activities met with a strong opposition from the Baghdad government as it claimed the right to a decisive vote on oil exports from the autonomous Kurdistan region. And he managed to get his own way; in the autumn of 2017, a rapid military operation carried out by the government forces made the Kurds forget about their dreams about both political and economic independence. On May 25, Rosneft and the KRG signed a new deal to build a pipeline and thus develop the region's oil and gas infrastructure. So the Russians took advantage of a perfect moment; at that time, the negotiations on the creation of a new Iraqi government were in progress while the Kurds played an important role in these talks.

Additionally, Rosneft has assumed the role of a mediator in a dispute between Kurdistan and the central authorities in Iraq. The government of the autonomy supported a new deal with Russia because the Iraqi Kurds feel betrayed by the West over the September 2017 referendum on independence. Thanks to its cooperation with the KRG, Rosneft gains a huge advantage over Western companies in the fight for Kurdish energy resources. However, Moscow must act carefully in order not to deteriorate its mutual relations with Bagdad, especially after the government change. The pragmatism of al-Sadr will indicate, however, that the Iraqi-Russian cooperation will be continued or even expanded.



SOURCE: KREMLIN.RU

26 June 2018

PUTIN AND GOVERNMENT'S POPULARITY IS DROPPING IN POLLS

Contrary to some expectations, the FIFA World Cup did not cover all Russian problems. Undoubtedly, Russia's authorities have thought that the propaganda noise around the football championship would soften some harsh social consequences of recent unpopular economic decisions. As a result, they will probably withdraw to a certain extent from the pension reform; such was the case of the increase in excise taxes on fuels. Due to his current problems, Russian president is more likely to give up his idea of aforementioned reforms and adopt a more market-oriented approach to the state's economic policy.

Over just one week (June 10-17), Putin's ratings dropped from 62 to 54 percent, according to the Public Opinion Foundation (FOM). It fell to its lowest level since 2013. As reported by another state-run pollster, Russian Public Opinion Research Center (VTsIOM), Putin's rate of approval dropped from 77 to 72 percent over the same period. In May, 80 percent of Russians citizens declared their readiness to vote for the incumbent president. In August 2017, 66 percent of Russian citizens wanted Vladimir Putin to stay in the Kremlin after 2024, contrarily to 51 percent now. The poll recorded also a decrease in the level of approval of the prime minister and government's performance. Medvedev's job performance is positively evaluated by only 38.5 percent of respondents. A week earlier, his popularity reached the level of 41,7 percent while a month earlier it was estimated at 45,4 percent. The government's job performance is approved by 44.7 percent (compared to 52.3 percent in May 2018). In June, 42 percent of Russian citizens trusted the incumbent president (compared to 47.4 percent in May), 16.7 percent placed trust in Sergey Shoygu (20.8 percent in May) 13.7 percent tended to trust Sergey Lavrov (16.6 percent) and 9.2 percent expressed their trust to Dmitry Medvedev (12.5 percent).

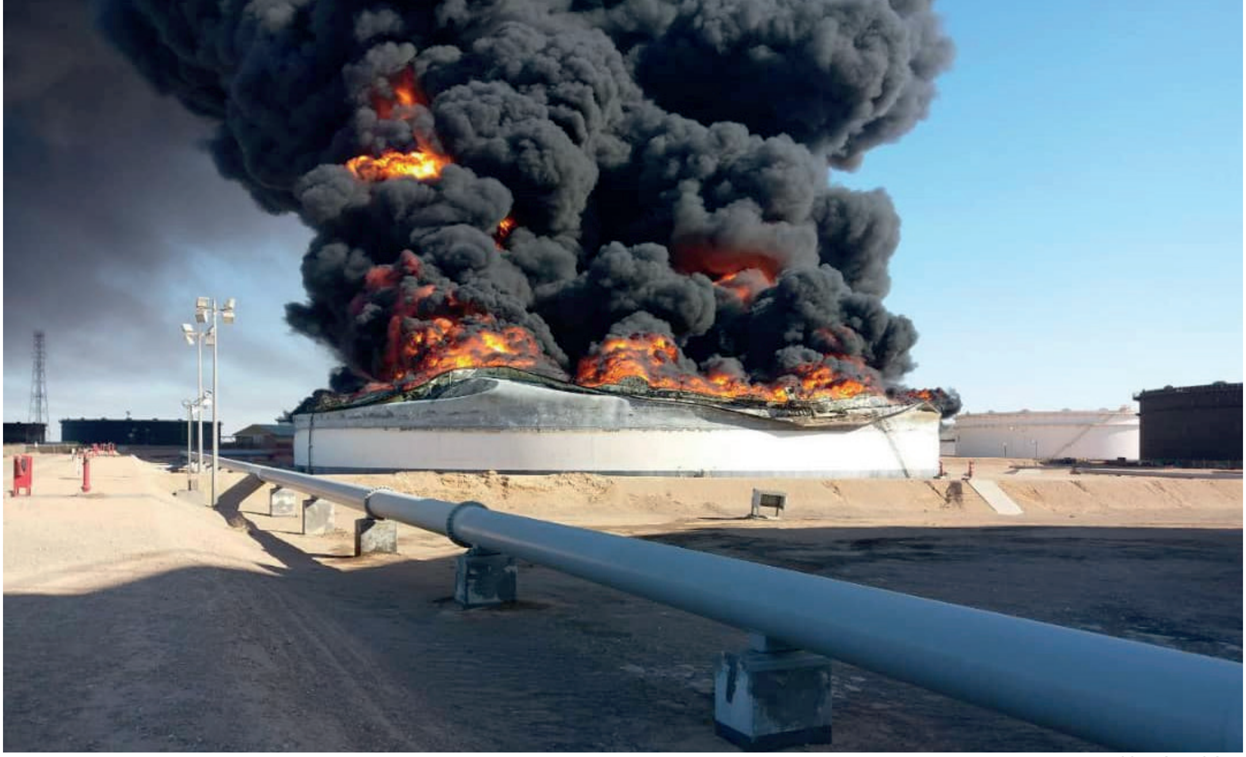
The drop in Putin's popularity was due to the recent car fuel price hikes and the latest announcement of pension reform. Since the beginning of this year, gasoline prices have risen on average by 8.2-8.5 percent. The measures taken by the government to prevent further increases will not be noticed by society as quickly as the above-mentioned increases. So it may be expected that the Russian authorities will lose part of its popularity even more after the start of street riots against raising the retirement age. Such situation will additionally aggravate if Russia's national football team is eliminated from the FIFA World Cup.

Putin distances himself from the pension reform. And even if his popularity ratings continue to drop while making the government its scapegoat will not satisfy the Kremlin so it will simply announce that, according to the president, the reform has its negative aspects. And it will be either cancelled or amended. And the president's approval ratings will go up, especially due to the fact that raising the retirement age is badly received by Putin's traditional electorate than by inhabitants of big cities, liberals or middle class representatives. In addition, Russia is likely to undertake some aggressive external activities in order to divert the world's attention from the country's internal situation.

27 June 2018

RUSSIA AND THE WAR FOR LIBYAN OIL

The short-term occupation of the two largest oil ports in Libya, as well as damaging some important facilities in Ras Lanuf, has recently shown that the country was not able to benefit from increases in world's oil prices. It will be possible only after the end of the civil war and the division of the country into two main parts. At present, there is no good solution since none of the sides has enough advantage to tilt the fate of the conflict in their own favor. Russia's authorities seem to be perfectly aware of the situation, as they have recently stopped supporting General Khalifa Haftar; instead, the country seeks agreement with both sides to the conflict. So if Moscow succeeds in its mediation mission, it will get the largest part of Libya's oil resources.



SOURCE: NOC.LY

At the end of June, the major Libyan oil ports of Es Sider and Ras Lanuf were closed following the heavy battles. In 2016, General Khalifa Haftar, commander of the LNA (Libyan National Army), seized oil ports and allowed them to be used by the state-owned National Oil Corporation (NOC), even though the company recognises the authority of the Tripoli government, which competes with Haftar. After the June attack of Haftar's hostile forces, the terminals were badly damaged and then closed, which resulted in decrease of almost half of Libya's oil production. The attack was launched by militias led by Ibrahim Jathran, supported by numerous mercenaries from Chad and Sudan. After a few days, Haftar's forces stormed the terminals.

Such unexpected attack on oil facilities has recently demonstrated that Libya constitutes a difficult market for potential foreign investors. Even General Haftar, who had disposed of the greater military power in the country, did not manage to prevent losses. Moscow used to have great hopes for the present Field Marshal. Now it has been confirmed that there is no point putting all eggs in one basket. And even if Haftar is doing well (contrary to some reports published at the end of April; on May 4, he even took part in a video-conference with Russia's Defence Minister Sergei Shoygu), Russia keeps balancing its diplomatic efforts in Libya.

On May 3, Mohammed Siala, Minister of Foreign Affairs of Libya in the Government of National Accord (GNA) held talks with Russia's deputy foreign minister Mikhail Bogdanov and secretary of the Security Council of the Russian Federation Nikolai Patrushev. Later on, Siala paid a second visit to Russia; he attended the International Economic Forum in St. Petersburg. He took part in a discussion with the participation of both Bogdanov and a certain man named Lev Dengov; a businessman who became head of the Russian Contact Group for Libya's ruling elites. In May, a delegation of "Libyan security structures" arrived to Moscow; its representatives were interested in buying Russian military equipment and weapons. The Russians are currently preparing their great comeback to the Libyan market that they lost completely in 2011; the revolution of that time stopped more than a dozen major projects in such domains as oil, construction, nuclear energy and health. In 2016, the trade exchange between the two countries amounted to only 74 million dollars and it accounted only for the export of agricultural products from Russia to Libya. In 2017, it was worth more than 135 million dollars and it is still growing. Large Russian oil and gas companies (such as Tatneft) are interested in returning to the Libyan market. In 2017, Russia's Rosneft began to buy raw material from the Libyan state-owned oil company NOC.

SOURCE: GAZPROM.RU

28 June 2018

GAZPROM AGAINST GENERALS

It does not come as a surprise that state-owned gas giant Gazprom has to fulfil three main functions. First, the company is expected to provide income to subcontractors, more precisely, to businessmen associated with the Kremlin. Secondly, Gazprom aims to pursue Russia's foreign policy, which seems to explain various business projects that do not appear to be profitable for the state's interest. And thirdly, export revenues will make it possible to subsidise supplies for domestic customers, especially the most important ones.
So Gazprom's financial situation is already so poor that the company decided to publicly ask the Ministry of Defense to pay off its debts. So what does it mean? Such a state of matters indicates Gazprom's financial problems and the company is supposed to implement large projects such as Nord Stream 2 and, at the same time, it is forced to pay for some abuses from the past (including Stockholm international arbitration award in the dispute with Naftogaz). On the other hand, the reaction of the Defense Ministry shows that the siloviki still dictate the condition of the game.

On June 20, Director General of OOO Gazprom Mezhregiongaz Kirill Seleznev announced that Russia's Defense Ministry owed Gazprom almost 12 billion roubles (190 million dollars) for gas and heat supplies (about 7 billion roubles for gas and more than 4 billion roubles for heat). According to Seleznev, Gazprom has received nothing but ministry's empty promises. The question of debt recovery has been also tackled by the chairman of the board of directors of Gazprom Viktor Zubkov. In addition, his son-in-law, Anatoly Serdukov, used to serve as a deputy defense minister. The debts owed to Gazprom are only a tip of the iceberg. In addition, the army finds it difficult to repay its electricity bills: over the period from January to May 2018, the debts mounted up by one quarter and now they amount to 15.4 billion roubles. According to Gazprom's materials, the gas debt owed by the Defense Ministry decreased by 6.3 percent during the year.

However, the company draws attention to the fact that the ministry had failed to implement the government's recommendations to develop funds for the debt repayment. In February 2017, Russian Prime Minister Dmitry Medvedev commissioned the Defense Ministry to undertake measures in order to regulate any debt of the institutions being subject to the ministry. However, the institution has not paid off its debts yet. Interestingly, it has no intention to do so. The army feels confident enough that it does not intend to pay for such services as gas, electricity or heat, all of them being supplied by state-owned companies. Just a few days after Gazprom's declaration, the Ministry of Defense issued its official statement. It replied that all of the debt mentioned by Gazprom referred to the obligations of the companies included in the non-existing Oboronserwis holding, set up in 2008.

They also owe over 12 billion roubles to the Defense Ministry. So what is the conclusion? Basically, the army will not pay off any debts to Gazprom. It is doubtful that the Kremlin would decide otherwise, especially due to the fact that state-owned gas giant is still supposed to be a cash cow for both Putin's oligarchs, and for state institutions.

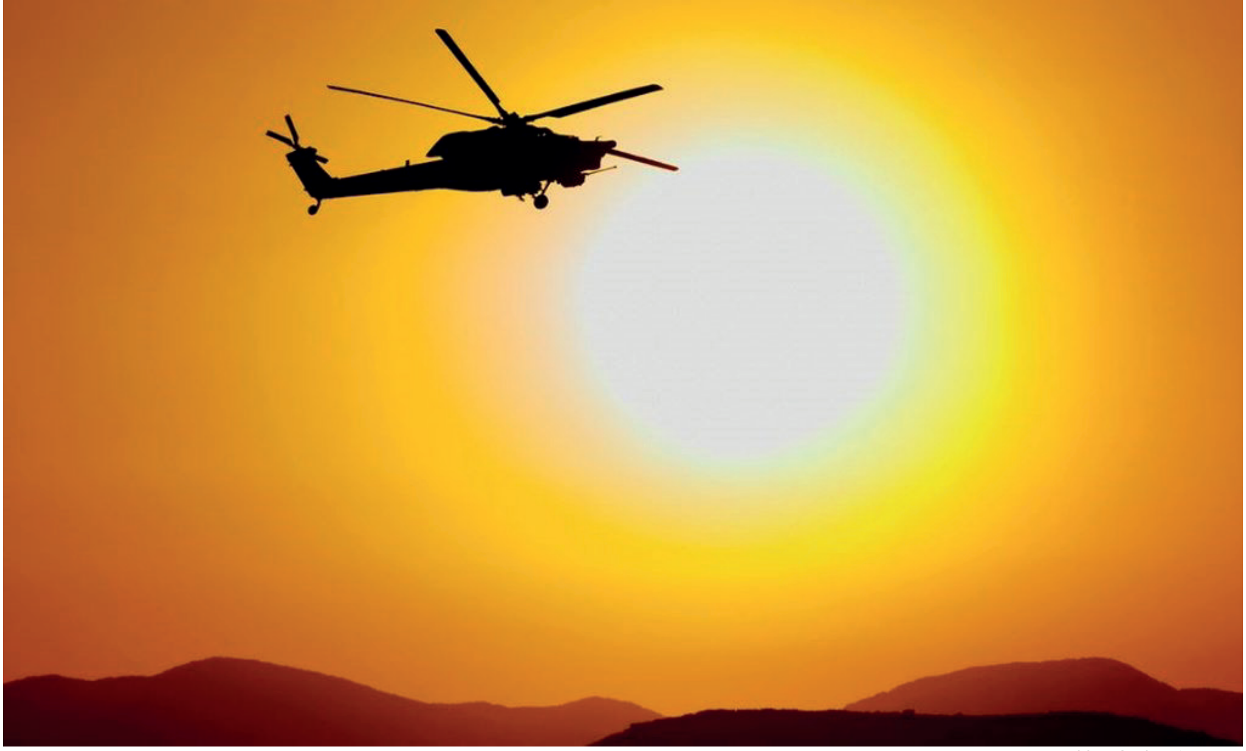
30 June 2018

TRUMP'S SYRIAN TRAP BEFORE THE SUMMIT WITH PUTIN

Speculations about a meeting between Russian and American presidents aroused at the very beginning of a new war campaign in Syria. Such a date can hardly come as a coincidence. Having attacked a so-called "de-escalation zone" in southwestern Syria, Bashar al-Assad put the United States in a very difficult position. It is not only about their credibility, but also about the arguments prepared before Helsinki summit.

As a result of the offensive of government forces on territories controlled by rebels in the provinces of Daraa, Quneiter and As-Suwayda, nearly 200 civilians have been killed while over 100,000 people have fled, escaping the raids and upcoming branches of the regime. Such is the strategy of al-Assad who aimed to liquidate yet another rebel enclave in Syria, following the offensive in eastern Ghouta. Similarly, the attack was carried out with substantial support from the Russian aviation and mercenaries from the Wagner Company. But the fate of this battle is equally important for the Kremlin.

The Syrian regime and its Russian ally broke provisions of the agreement concluded in July 2017. Russia, the USA and Jordan jointly agreed to set up a so-called de-escalation zone in southwestern Syria. It was supposed to be the first such zone in Syria; after all, more of them were created and the idea of establishing zones was strongly advocated by Moscow. Such behind-the-scene information was published on the occasion of the meeting between Putin and Trump at the G-20 summit in Hamburg. It seems that the next meeting between both leaders, held in full political format on July 16 in Helsinki, will seal the



SOURCE: SYRIA.MIL.RU

fate of the agreement concluded a year before; similarly with the fate of the rebels as the Americans announced that they would not provide them with any military support in the face of the regime's offensive.

So if the Russians enter the operation on June 23, which will mean that Putin decided to risk his neck for the case. He does not want to wait for a meeting with Trump to negotiate some issues in southern Syria. Quite the contrary; he has intention to close the case until the Helsinki summit and, at the same time, to break the resistance of the rebels and to deploy Russian forces on the border with Jordan and the Israeli-occupied Golan Heights. In this way, he would have strong arguments that could potentially be used during his meeting with Trump. The Trump administration is already playing a losing game as it has decided to withdraw from its support to rebels from the moderate Free Syrian Army. It may lose even more if Trump officially accepts such a solution during talks with Putin. Nonetheless, Moscow may overplay in Syria as fights in the south of the country increase the risk of tragic and bloody events that could even torpedo the Helsinki summit. Such a state of affairs may be first and foremost advocated by Iran whose authorities are suspicious about any attempts to negotiate or to cooperate between Moscow and Washington in Syria. The upcoming summit between Putin and Trump may be also troublesome for America's Kurdish allies in Syria.

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