

RUSSIA MONITOR

MONTHLY

May 2019



W WARSAW
INSTITUTE

CONTENTS



14

RUSSIAN ECONOMY
HITS RECORD LOW



20

RUSSIA DEPLOYS MORE
TROOPS TO AFRICA



23

RUSSIA HOPES TO
INCREASE OIL OUTPUT

3 TO WHAT EXTENT IS RUSSIA
CUTTING MILITARY SPENDING?

5 RUSSIAN GRU AGENTS FOUND
GUILTY OF ATTEMPTED
MONTENEGRO COUP

6 IDLIB AIR RAIDS CONTINUE
AS NEGOTIATIONS COME TO
STANDSTILL

8 RUSSIAN MILITARY ACTIVITY IN
YELLOW SEA RAISES CONCERNS
IN SOUTH KOREA

9 DRUZHBA OIL PIPELINE
CONTAMINATION BRINGS RUSSIA'S
TRANSNEFT INTO DISREPUTE

11 PUTIN AGAIN SEEKS RESET IN
U.S.-RUSSIAN TIES AS POMPEO
HEADS TO SOCHI

13 GAZPROM MANAGEMENT PROPOSES
NEW DIVIDEND AMOUNTS

14 RUSSIAN ECONOMY HITS
RECORD LOW

16 RUSSIA'S BALTIC FLEET HOLDS
"ANNIVERSARY" DRILLS NEAR
BALTIC COASTLINE

17 RUSSIAN ARMY ENTERS REGIONS
TO CRUSH SOCIAL UNREST

19 PUTIN'S PUBLIC TRUST RATINGS
KEEP DROPPING

20 RUSSIA DEPLOYS MORE TROOPS
TO AFRICA

21 RUSSIA'S SILOVIKI HEAD
TO TAJIKISTAN, MOSCOW'S
IMPORTANT ALLY

23 RUSSIA HOPES TO INCREASE OIL
OUTPUT

24 TALIBAN'S VISIT TO MOSCOW
COMES AS PART OF RUSSIA'S
AFGHAN INTRIGUE

25 RUSSIA BLASTS RECENT
KOSOVO-SERBIA TENSIONS

27 GAZPROM'S TURKSTREAM
SNEAKS INTO CENTRAL EUROPE

28 LAVROV AND SHOIGU VISIT
JAPAN – FAIL TO MAKE
BREAKTHROUGH ON KURIL ISLANDS

30 U.S. THREATENS SANCTIONS
OVER RUSSIAN NORD STREAM 2
PROJECT

32 OIL AND GAS DISCOVERIES AND
INVESTMENTS IN THE RUSSIAN
ARCTIC



SOURCE: ENG.MIL.RU

7 May 2019

TO WHAT EXTENT IS RUSSIA CUTTING MILITARY SPENDING?

Russia's 2018 military expenditure dropped, marking the falling tendency for a third consecutive year, the latest report by the Stockholm International Peace Research Institute (SIPRI) revealed. Pessimists in Moscow have already sounded the alarm, claiming that Russia halts further military spending while those of other countries have recently rocketed. Also, they pointed to Moscow's economic problems as the reason for limiting the scope of the country's armaments. For their part, optimists said that dropping figures came in the aftermath of a proposal to upgrade the army, scheduled a few years ago, while Moscow spends less yet makes better investments than its international rivals. The sums themselves have sparked off a heated controversy, given that various methods of converting currency in which expenses were expressed (from roubles to dollars) whereas a considerable part of Russian military budget is not revealed to the public.

Russia has fallen out of the top five defense spending countries for the first time since 2006. The SIPRI study revealed that Russia's 2018 defense spending amounted to \$61.4 billion, slipping 3.5 percent compared to the 2017 figures and pushing Russia further to sixth place worldwide. The United States has remained the global leader, spending \$649 billion on military purposes, a 4.6-percent increase compared to 2017. According to the

SIPRI index, China allocated \$250 billion to defense as its military expenditure has been subject to continuous growth over the past 24 years. Among the world's biggest defense spenders are also Saudi Arabia, India, and France. Overall, total world military expenditures rose to \$1.882 trillion in 2018, the highest figure since SIPRI started measuring defense spending in 1988. Of all countries covered in the report, 15 leading

states account together for 81 percent while the top five – for 60 percent of global military spending. Russia's expenditure accounts for 3.4 percent of the world's overall military expenses while the United States spends one of three dollars allocated to defense purposes. In total, NATO allies designated \$963 billion, or 53 percent of global military expenditure, to boost defense. In some Central and Eastern European countries, a high growth rate of military spending is linked to mounting perceptions of a threat from Moscow.

Russian budget allocated to armaments and army has plummeted by 20 percent over the last two years, a trend that resulted from the economic impacts of Western sanctions and low oil prices that both have negatively affected the state budget. In 2018, Russian defense expenditure dwindled for the third year in a row, and yet it should be assumed that the SIPRI data has been underestimated, though it is unknown to what extent. Also, it is problematic to calculate defense budget that is allotted to this purpose through distinct state institutions along with expenditure coming from hidden sources that are becoming more and more numerous. Though defense expenditure has decreased over the past two years, they have in total amounted to 3.9 percent of Russia's GDP in 2018. A study by the Gaidar Institute noted that \$108 billion were allocated to the military, yet adopting a distinct method than that of the Swedish think tank while converting roubles to dollars.

As reported, military expenditure decrease had been foreseen many years before when multiannual military upgrade plans were drawn up. When Russia implemented a plan to modernize its army and naval fleet in 2010–2015, it increased the annual defense budget by 4.9 up to 16 percent. Military spending has continuously slipped since 2016, marking 11-percent decrease in 2016 and 19-percent fall in 2017.

Yet the strategy to upgrade the army did not encompass within its scope full construction and modernization of the Russian military. Although the Russian army has received cutting-edge weapon technology, including the Tsirkon cruise missile, the Poseidon unmanned underwater drone, and the Kinzhal hypersonic missile, it generally lacks modern weaponry and is primarily equipped with older supplies. For instance, up to 100 T-14 tanks were delivered as a trial batch, with its large-scale production postponed as the result of the limited defense budget. A decision was made to continue serial production of T-72B and T-90 tanks. As for Russian air forces, they are not equipped with the Sukhoi SU-57 jet fighters while the situation looks somewhat optimistic in the Air Defense Forces having at their disposal S-400 missile systems, upgraded with S-300s, as the core component of anti-aircraft defense. Also, Russian electronic warfare systems seem to be in a satisfactory condition.



SOURCE: SKUPSTINA.ME

9 May 2019

RUSSIAN GRU AGENTS FOUND GUILTY OF ATTEMPTED MONTENEGRO COUP

A court in Podgorica found a group of people guilty of plotting a coup aimed at overthrowing the Montenegrin authorities back in the autumn of 2016. Armed attacks were planned and carried out under the supervision of Russian military intelligence officers. As initially planned, Serbian nationalists were supposed to trigger off a storm on the parliament building and assassinate the Montenegrin prime minister. The coup was thwarted by Montenegrin services, after being tipped off by one of the plotters. In June 2017, Montenegro joined NATO, becoming its 29th member.

The Supreme Court of Montenegro found a group of 14 people, including Russian, Serbian and Montenegrin nationals, guilty of attempted terrorism and creating a criminal organization that stood behind the failed coup in October 2016. The operation was conducted under the supervision of GRU agents who had also helped to prepare the plot. “The organization aimed at preventing Montenegro’s accession to NATO,” the judge said. Two Russian military intelligence officers, who were sentenced in absentia, were among the convicts. Eduard Shishmakov and Vladimir Popov were sentenced to 15 and

12 years in prison. Two leading ethnic Serb opposition politicians of the Montenegrin Democratic Front, Andrija Mandic, and Milan Knezevic, were sentenced to five years each while their driver Mihajlo Cadenovic was given an 18-month jail term. Of 9 Serbian national found guilty by the court in Podgorica, the highest sentence was given to Bratislav Dikic, the former commander of a Serbian police unit, sentenced to 8 years in prison. Most of the convicts were tried in absentia.

Russia’s military intelligence service GRU

prepared and carried out an operation targeted against the pro-Western authorities in Podgorica both from Serbia's territory and with the participation of Serbian nationalists. Serbian and Russian nationalists intended to attack the country's parliament and kill Prime Minister Milo Djukanovic, thus dissuading Podgorica from joining NATO. Yet the operation failed as one of the plotters had informed Montenegrin services about their intentions. Some of the putschists were ultimately detained while others, including GRU officers, playing critical roles in the conspiracy, managed to flee to Serbia. They were both accused in absentia while the real name of one of them was quickly identified. The name of the first Russian officer indicted in the Montenegro coup trial was Eduard Shishmakov (alias Shirokov). Back in 2014,

he was expelled from his post as Russian Deputy Military Attaché in Poland after being accused of espionage. After two years, it was finally possible to determine the identity of the second GRU conspirator. He turned out to be Vladimir Moiseev who worked in Poland at the same time as Shishmakov alias Shirokov. For its part, Moscow has denied any involvement in the coup attempt. Indicting former leaders of the Democratic Front may aggravate the political dispute in Montenegro. The Moscow-backed formation has held rallies and has striven to destabilize the situation in the country. Both leaders of the Democratic Front have claimed that Montenegro's pro-Western authorities had fabricated allegations while pointing out an allegedly political background of the trial.

10 May 2019

IDLIB AIR RAIDS CONTINUE AS NEGOTIATIONS COME TO STANDSTILL

Syrian government and allied Russian warplanes intensified in late April and early May bombardment of Syria's rebel-held Idlib province and neighboring regions, killing dozens of civilians. And yet, the issue of the rebel-controlled enclave has come to a standstill due to Turkey's calls for stopping the invasion by government forces, backed by Iranian and Russian allies. Also, it was expected to become one of the topics discussed during the next Astana format meeting. Yet peace talks have eventually failed to bear any fruits, as a result of which Idlib's status quo is likely to be maintained until July.

Syría's Idlib province is a rebel-held stronghold in the country, dominated by Tahrir al-Sham (HTS) armed group, formerly affiliated to al-Qaeda, since January 2019. In September 2018, Russia and Turkey, the latter of which has backed some of the rebel groups in Idlib, managed to agree truce while establishing a buffer zone, a step that has halted the government offensive against the rebel-held enclave. Also, Idlib is home to 3 million civilians and tens of thousands of rebel fighters. Any attempt to annihilate Syria's

rebel-controlled stronghold will be equivalent to bloodshed, as a result of which thousands may be slaughtered, while forcing tens of thousands of people to flee to neighboring Turkey. The UN special envoy for Syria has informed that since February, over 200 civilians had reportedly been killed in Idlib while fighting had forced 120,000 people to flee to areas closer to the Turkey border.

Considered the rebel-held footholds, Idlib along with the adjacent provinces of Hama,



SOURCE: SYRIA.MIL.RU

Aleppo, and Latakia are also where the government forces are making constant efforts to defeat the enemy. On April 20, Syrian President Bashar al-Assad called for taking immediate steps to implement an agreement on the stalled buffer zone in Idlib province, claiming that Turkey, which backs the rebellion, does not comply with the deal. Furthermore, al-Assad tried its utmost to make Idlib the main topic of the next round of Astana format negotiations. The 12th round of peace talks on Syria took place in the Kazakh capital of Nursultan on April 25 and 26. It, however, failed to bring any results as all participants had made it difficult to detail an agenda of the meeting. While Iran and Syria urged for tackling the Idlib issue, Turkey along with the Syrian opposition sought to focus on exchanging prisoners and address the situation in northeastern Syria, whose territory is to a great extent controlled by the Kurdish-dominated SDF coalition. For its part, Russia held an interest in setting up the constitutional committee whose main objective will be to draft a new Syrian constitution. Nothing has, however, been determined in this respect. In their final

statement, Russia, Iran, and Turkey voiced concerns over an ever-stronger position that HTS had accomplished to gain in Idlib. The three signatory states also highlighted their joint “determination in ensuring further cooperation to defeat” HTS and Islamic State.

Meanwhile, more air raids hit rebel-controlled regions, killing ten civilians on April 26. The strikes killed three civilians including a boy in the town of Kafranbel, and seven including a girl in the town of Tal Hawash. On April 30, the United States called on Russia to fulfill its commitments and halt further activities in Idlib. Within one week, the Syrian government and Russian aircraft carried out more than 100 air strikes on Idlib and nearby Hama province. As reported, government forces have been employing the barrel bombing, killing at least 69 people. Damascus said that the intention was to destroy jihadist-owned facilities after they had reportedly violated the de-escalation agreement. Government-led air raids have destroyed three hospitals, the WHO reported. Also, the Russian-Syrian coalition has targeted some schools.



SOURCE: ENG.MIL.RU

11 May 2019

RUSSIAN MILITARY ACTIVITY IN YELLOW SEA RAISES CONCERNS IN SOUTH KOREA

An air incident has recently taken place during the joint Russian-Chinese naval drills in the Yellow Sea as two Russian aircraft penetrated South Korea's air defense identification zone (ADIZ), forcing South Korea to mobilize its fighter jets in response. Not incidentally, Russian jets have so far violated the South Korean zone as many as four times. The occurrence happened during a Russian-Chinese bilateral naval exercise, codenamed Joint Sea 2019.

A pair of Russia's maritime reconnaissance and anti-submarine warfare aircraft Tupolev Tu-142s entered South Korea's air defense identification zone without prior notice. In response, South Korea deployed its fighters, Yonhap news agency reported on May 8, quoting a military source in Seoul as saying. Russian aircraft flew from the south of the South Korean island of Jeju, entering the zone at least four times where they stayed for more than 1.5 hours, a move that prompted South Korea to scramble its fighter jets. Although the incident happened in the first days of May, it is unknown when exactly it took place. However, it might have been linked to the Russian-Chinese joint naval drills conducted in the

region.

The drills were held between Russia and China between April 29 and May 4 near the port city of Qingdao in northern China. Codenamed Joint Sea 2019, the military drills were attended by warships, including submarines, aircraft, helicopters, and airborne forces. The Russian armada consisted of the Pacific Fleet detachment that included the missile cruiser Varyag, anti-submarine warfare ships Admiral Vinogradov and Admiral Tributs and corvette Sovershenny. For its part, China has said that the drills focused on "joint maritime defensive operations" and were not targeted against any third party. The Joint Sea 2019 maneuvers

marked another joint military undertaking carried out by Moscow and Beijing. Back in September 2018, up to 3,000 Chinese servicemen attended the Vostok 2018 war games in Siberia. Recent military drills were both aimed at serving as an example of ever-closer defense cooperation between Moscow and Beijing while sending a blatant signal from China to the United States as another element of strengthening the navy's combat capabilities. The Chinese authorities have been committed to pursuing a policy of expansion and modernization of the armed forces, focusing on boosting their navy's capabilities. In 2018, Chinese President Xi Jinping said as he oversaw a grand naval parade that the need

to build a strong navy "has never been more urgent than today." As reported, China has intended to construct its third aircraft carrier. Beijing's ambitions to grow military potential is closely linked to its territorial claims in the South China Sea region while China's attempts to militarize the area have triggered off a sharp reaction from Washington. In consequence, the United States has deployed more of its naval ships to the region over the past few months. Expanding the Chinese navy was primarily intended to provide the country with an asset that will prevent foreign states, including the United States, from interfering if Beijing decided to invade Taiwan.

14 May 2019

DRUZHBA OIL PIPELINE CONTAMINATION BRINGS RUSSIA'S TRANSNEFT INTO DISREPUTE

Adverse effects of the Druzhba oil pipeline contamination crisis are likely to be felt until the end of the year. This was the most significant technical failure in its 55-year history while real normalcy is expected to come long after it had been promised. For his part, Belarusian President Alexander Lukashenko claimed the cost of damages from contaminated oil received via the pipeline could run into the hundreds of millions of dollars. The recent equipment failure showed that importing hydrocarbon supplies from Russia is a risky undertaking while its effects were immediately experienced by refineries in Germany, Poland, the Czech Republic, Slovakia, and Hungary. About 36.7 million barrels of crude oil were contaminated yet no information has been given how polluted supplies had entered the pipeline. Although the Russian pipeline operator provided on some explanations, many recipients considered them highly doubtful. It might have been Transneft's responsibility, and the company is now trying to blame publicly several minor oil supplies for what had happened in the pipeline.

On May 11, the president of Belarus Alexander Lukashenko said the cost of damages from contaminated oil received via the Russian Druzhba oil pipeline was "enormous" and Belarus expects compensation from Russia. Both the pipeline

infrastructure running through Belarus and two local refineries were damaged due to contaminated crude. Although still being evaluated, costs of the damage could run into the hundreds of millions of dollars, Lukashenko stated, while hoping that



SOURCE: KREMLIN.RU

Moscow will not dispute the costs incurred by Belarus. Representatives of Transneft denied Lukashenko's claims, saying that Belarussian losses do not amount to "hundreds of millions of dollars," as the president had initially reported. Russian renowned Vedomosti newspaper wrote on May 13 that oil damage in the Druzhba pipeline may range from \$271.3 million to \$435.3 million, most of which accounts for Belarussian transit fees and revenues from processing oil supplies. Belarus's Belneftekhim reported that due to a drop in refinery production, the company was deprived of its profit amounting to \$100 million. Further costs will be incurred as the pipeline will need to be cleaned while faulty equipment replaced.

The Druzhba pipeline is one of the oldest arteries through which Russian crude supplies are delivered from Russia and Kazakhstan, through Belarus, to Poland, Germany, and Slovakia. The pipeline handles up to 8 percent of total EU imports while its annual capacity is estimated at 65 million tons of crude oil, or one-quarter of Russia's total exports. On April 19, Belarus informed about contaminated oil shipments flowing through the pipeline and claimed that the source of "chloride pollution" was detected in Russia, along the Samara-Unecha section. Transneft initially downplayed the issue, saying the incident was minor and the situation would be "normalized" within a week. Shortly after,

contaminated oil flows caused significant concerns and forced Belarus and several European recipients to halt Russian oil supplies. Belarussian refineries were forced to halve oil production while Polish PERN and Ukrainian Ukrtransnafta stopped oil shipments. On April 30, the same decision was made by Belarus state oil company Belneftekhim. Later that day, Belarussian pipeline operator Gomeltransneft Druzhba halted Russian oil flows to pump dirty crude out of the pipeline.

On April 30, Vladimir Putin summoned the head of Transneft Nikolay Tokarev to the Kremlin, demanding an explanation. Tokarev said an internal investigation by Transneft had concluded that the contamination might have been the result of fraud perpetrated by a private firm in the Samara region. This theory was, at least publicly, seemed to have been accepted by Putin, though the problem is that there is no credible evidence of such fraud has actually been produced. On April 27, Russia's Federal Security Service (FSB) launched an investigation into the case, calling the contamination an act of "sabotage." Two days later, four of six men, identified as managers of small private-owned companies, were detained on the charge of intentional oil pollution in the Druzhba pipeline. Blaming small private-run companies brings large Transneft into disrepute, the more that the latter wields control over all oil pipelines

across Russia. Both political and financial consequences of the oil contamination scandal have shown Russia in a bad light. Experts, however, are doubtful about Transneft's explanations and point that both the scale and the level of pollution have prompted

the long-lasting nature of the entire process. Small private-run companies do not dispose of such considerable quantities of their own oil supplies, nor do they have access to export pipelines.

16 May 2019

PUTIN AGAIN SEEKS RESET IN U.S.-RUSSIAN TIES AS POMPEO HEADS TO SOCHI

Since Donald Trump came to power, Russia has striven for reaching a U.S.-Russian bilateral agreement on the world's most significant issues in which Moscow seems to hold particular interest. If possible, Kremlin officials would undoubtedly intend to reset bilateral ties between the two countries, marking an Obama-era solution. Vladimir Putin has, however, experienced a series of disappointments, the greatest of which was what had happened in the aftermath of the Helsinki summit. Initially expected to represent a diplomatic breakthrough in bilateral ties with Washington, the July meeting eventually deteriorated relations between the two countries. On the one hand, Putin keeps terrifying the United States with various types of Russian "super weapons" while, on the other, hoping for any signal that could possibly announce warmer ties between the two states, examples of which have been particularly visible over the past few days.

On May 3, Putin and Trump held a telephone conversation while U.S. Secretary of State Mike Pompeo paid a visit to Russia just several days later. While Washington's reaction can be referred to as much more reserved about further results of the negotiations, Moscow has insisted on the plausible breakthrough in relations with the United States. And yet, the Kremlin's expectations are doomed to fail due to Moscow and Washington's divergent interests and too many common conflicts worldwide.

U.S. Secretary of State arrived in Sochi on May 14 for talks with President Vladimir Putin and Foreign Minister Sergei Lavrov. The circumstances of Pompeo's visit to Russia, including the behavior of the Russian leader along with final remarks made by

main participants of the talks, have yet shown Moscow's considerable efforts made to warm ties with Washington. However, there appeared some elements of Russian provocation. While Pompeo was actually holding talks with Lavrov, Putin, who was en route to Sochi, made a stopover in a military research and development center based in the town of Akhtubinsk. During the inspection, which was broadcast in Russian state television, Putin took a look into military work on developing the hypersonic missile, a modern type of weaponry which the Russian president has boasted about over the past few months to intimidate the West. The Russian leader was two hours late for the meeting with Pompeo. Neither his pit stop in Akhtubinsk nor making the American guest wait for the meeting was as a coincidence, with both



SOURCE: KREMLIN.RU

events fitting into Russia's psychological game.

Following Pompeo's talks with Lavrov and Putin, also attended by Director of the Russian Foreign Intelligence Service Sergey Naryshkin, Moscow and Washington issued different comments on the same meeting. For his part, Putin declared Moscow's eagerness to restore relations with Washington. Also, he said his May 3 phone call with Trump created the impression that the president intends to "restore Russian-American connections."

A turning point in what Moscow considered a change in Washington's foreign policy might have been the Mueller report on the Trump-Russia investigation. Lavrov clearly referred to the document, saying that bilateral channels of communication had been frozen "due to a wake of baseless accusations" against Russia "in attempts to influence American elections and certain collusion of high-ranking officials of the incumbent administration." Putin said that the report had found "the absence of any collusion between the US administration and Russia." Moscow seems to be aware that Trump will enter into cooperation with the Kremlin as he no longer needs to pursue a sharp anti-Russian policy to show himself in a good light. These hopes may be illusory, though. It was only recently that the FBI director has warned anew about Russia's continued meddling in American elections.

Sitting across from Lavrov and Putin during the Sochi meeting, Mike Pompeo warned them about Russian interference in U.S. elections in 2020.

The agenda of the Sochi summit also included the issues of Venezuela, Iran, Syria, and North Korea. Furthermore, the officials discussed restriction regarding the arms race. Nonetheless, U.S. Secretary of State reiterated Washington's official standpoint in all these domains, saying at a press conference that the United States would have no intention to recognize the Kremlin's annexation of Crimea of 2014. As for all critical topics, no breakthrough was achieved, though. No rapprochement has been noticed, either, a situation that is unlikely to change even as a result of the Trump-Putin meeting at the G20 summit in Osaka in June this year. Also, it remains unclear whether the event will finally take place; though Russia said that Trump had held interest in taking part in the meeting, Russian Deputy Prime Minister Sergey Ryabkov admitted that the issue had not yet been formally discussed. According to the best traditions of Russian diplomacy, Moscow has continuously mentioned the theme of the meeting, claiming that Washington should submit a formal request if it is in fact interested in taking part in the summit. But, in fact, it is Putin who plays the role of the client.



SOURCE: GAZPROM.RU

16 May 2019

GAZPROM MANAGEMENT PROPOSES NEW DIVIDEND AMOUNTS

Russian gas producer Gazprom's management board proposed raising dividends for 2018, increasing it up to 150 billion roubles, which marked an all-time record both in the company's history and the highest amount ever paid by a Russian state-run firm to its shareholders. Gazprom's generosity might have stemmed from a compromise reached with the Russian Finance Ministry that will probably not raise the firm's mining taxes in return. Most of the dividend payments will yet go to the federal budget.

On April 11, Gazprom's management board proposed a 2018 dividend payout of 10.43 roubles per share, or the total amount of 246.9 billion roubles. The sum has since then risen to 16.61 roubles per share, giving the overall amount of 393.2 billion roubles to be paid out to Gazprom's stakeholders. This is more than twice the payout in 2017, Gazprom announced on May 14. The dividend recommendation still needs to be approved at the company's annual shareholders' meeting on June 28.

Russian Finance Ministry has long expected state-run companies to pay out dividends

accounting for up to 50 percent of their incomes, accordingly to the International Financial Reporting Standards (IFRS). And yet, Gazprom intended to pay no more than 17 percent of its income. What was recommended back in April this year disappointed both shareholders and the Russian government. Although the proposal hit the company's record-high results, it exceeded that of 2013 in terms of the firm's share (17 percent of consolidated net profit). Under the new dividend recommendation, payouts will surge to 27 percent, and the government will commit to not raising or only partially increasing Gazprom's mineral

extraction tax. Since then, the Russian government has given twice its go-ahead for paying out low dividends yet in exchange for soaring tax rates. This has, however, brought profits to the state, giving no advantage to all other shareholders. The question is now whether such high dividends will remain at the comparable level or this was intended to serve as a one-off action.

The sharp rise in 2018 dividend payment was warmly welcomed by the Russian market, with Gazprom's capitalization surging by over 16.5 percent, up to 4.5 trillion roubles. This marked the company's highest results since the summer of 2011. As a result, Gazprom surpassed Lukoil (3.9 trillion roubles) and Rosneft (4.46 trillion roubles), the country's top two crude producers, to become the second most valuable company on the exchange only to Sberbank (4.9 trillion roubles). Once paid out, such high dividends will break a record in Russian history. A month ago, Sberbank proposed a 2018 dividend of 361.4 billion roubles, or 16 roubles per share. Russian state-run

Rosneft also announced its plan to pay out a record sum of 274.6 billion roubles, the highest in the firm's history and accounting for 50 percent of its profit, as expected by the Finance Ministry. The latter institution hoped that total contributions from state-owned companies to the federal budget will double in 2019, reaching the overall sum of 588.3 billion roubles.

Gazprom had a successful year in 2018 as the firm's net profit rose to a record-high amount of 1.456 trillion roubles. And yet, the Russian gas giant is soon expected to reach the peak of its flagship investments, which will force the company to spend 1.3 trillion roubles this year. Back in 2018, Finance Minister Anton Siluanov declared the ministry's readiness to make an exception for both Gazprom and yet another state-run company in terms of dividends. The company so far has benefited from annual concessions, saying it was necessary to finance its large flagship energy projects, including the Nord Stream 2, TurkStream and Power of Siberia gas pipelines.

20 May 2019

RUSSIAN ECONOMY HITS RECORD LOW

Economic growth in Russia in the first quarter is slowest that initially expected while the country's economy came to a sharp slowdown, the government said, explaining such a tendency with weak domestic demand after an increase in value-added tax. Poor economic growth affects all significant sectors of the Russian economy, along with the dramatic deterioration of citizens' social situation. Looking forward, there is little chance for the economy to recover yet the Russian government has been consciously committed to pursuing a stagnant economic policy while tightening the belt and awaiting further U.S. economic sanctions to be imposed sometime soon.

Russia's Federal Statistics Service, or Rosstat, informed on May 17 that the country's GDP grew by 0.5 percent year-on-year in the first quarter of 2019, compared to the same period a year earlier. This marked

Russia's weakest level since 2017 when its GDP rose by 0.3 percent in the fourth quarter, which was much below forecasts. The finance ministry had previously forecast GDP growth at 0.8 percent in the first quarter while the



SOURCE: KREMLIN.RU

central bank (CBR) that had foreseen GDP growth at an optimistic level of 1.5 percent in January–March. After the reports were published, Russian Finance Ministry said the slowdown had been “initiated and resulted from weaker internal demand that occurred after the tax burden was increased,” when the VAT rate rose to 20 percent from 18. Russian President Vladimir Putin last year signed into law the measure to increase the VAT rate as of January 1, 2019. Economic slowdown affected industrial production, retail sales, construction sector, and agricultural production.

Recent reports have depicted both weaker domestic demand and poor condition of Russian investments while the negative economic tendency is unlike to reverse in the second quarter of the year. As reported, economic activity could pick up in the second half of 2019. Also, the ministry projects that its economy would expand by 1.3 percent this year, while the central bank forecast growth at 1.2-1.7 percent. In 2017, Russian economy returned to the path of growth after having experienced two years of recessions between 2015 and 2016. Back in 2014, it had been particularly struck by two outside phenomena. First, this was due to falling oil

prices, climbing above \$100 a barrel in late 2014 and hitting no more than \$30 in early 2016, which was a sharp blow to the Russian federal budget. Also, both the United States and the European Union had introduced severe economic sanctions, forcing Russian-based companies to reduce investments while increasing loan costs for the entire Russian economy. There was also a sharp decline in investments and consumption.

In April this year, Bloomberg ranked Russia among the world’s 20 poorest economies. The country was reported as the 17th most miserable economy, owing to projections of higher prices and stagnation in joblessness. Also, Putin’s social promises back in February this year will be costly, reaching the amount of 100–120 billion roubles (\$1.5 billion) per year, Russian finance ministry informed. Statistically, this will give slightly more than 10\$ per one citizen, a small sum compared to nearly \$390 billion of Russia’s hard-currency reserves. The VAT rise from 18 to 20 percent will give to the state budget an additional amount to \$9 billion. Higher VAT rates will trigger more expenses for Russian households, a small part of which will later go back to the citizens, under new social payments promised by Vladimir Putin.



SOURCE: WIKIPEDIA.ORG

22 May 2019

RUSSIA'S BALTIC FLEET HOLDS "ANNIVERSARY" DRILLS NEAR BALTIC COASTLINE

The Baltic NATO member states have noted Russia's increased military activity around their borders in the second half of May. Russian jets were many times intercepted near the coastline of the Baltic States while a Baltic Fleet's brand-new Karakurt-class corvette, armed with Kalibr cruise missiles, approached the Latvian maritime border. This is linked to war games currently taking place in the Russian exclave of Kaliningrad, held under the pretext of the anniversary of the Baltic Fleet. Russian maneuvers were linked to NATO's Spring Storm military drills held in Estonia.

Lithuanian Defense Ministry said on May 20 that allied fighters involved in NATO's Baltic Air Policing mission were intercepted six times within a week to intercept Russian aircraft. As reported by the Lithuanian side, between May 13 and 19, NATO jets were scrambled once, three times and five times to intercept an Antonov An-26 military transport aircraft, an Ilyushin Il-22 electronic warfare plane and Sukhoi Su-27 fighter jets respectively. Further details were given by Britain's RAF command stationed at the Ämari Air Base in Estonia. On Tuesday, May 14, British Typhoon fighters were scrambled

in response to two Russian Su-27 fighter aircraft and one Il-22 aircraft. They were flying along the Baltic coast and heading toward Kaliningrad. The Russian convoy was then observed by a group of Hungarian JAS-39 plane that had taken off from the Lithuanian base of Siauliai. On Wednesday, May 15, British jets were again deployed to intercept a pair of Sukhoi Su-27 fighters and an Ilyushin Il-22 aircraft. In addition to British and Hungarian warplanes, also Spanish F-16 jets are now stationed at the Lithuanian base of Siauliai to help defend the airspace of Lithuania, Latvia, and Estonia.

On May 19, a Russian warship was spotted near the Latvian border. “In the Latvian exclusive economic zone, 14 nautical miles from the territorial waters, the naval forces identified corvette Uragan of the Karakurt class with number 567 of the Russian Armed Forces,” Latvia’s National Armed Forces said in a statement. Identified by the Latvians as Mytishchi, the corvette formally entered military service in January 2019 at the Baltic Fleet’s home base of Baltiysk (Kaliningrad Oblast). It is armed with Kalibr and Oniks cruise and anti-ship cruise missiles.

Russian jets, including Ilyushin Il-22PP electronic warfare planes, so far have made numerous flights over the Baltic States, probably in response to Spring Storm military drills in Estonia, which are soon coming to an end. Russian increased military activity in the

southern Baltic region was also linked to the war games in the Kaliningrad Oblast. A series of military drills were held in the area to mark the 316th anniversary of the Baltic Fleet in the second half of May. On May 17, the Fleet’s warships practiced combating enemy submarines while a day before its aviation conducted combat activities targeted against notional enemy’s aircraft. The anniversary celebrations, including the military parade, took place on May 18 in Kaliningrad. The Baltic Fleet’s military equipment has been systemically upgraded over the past few years. Incorporating the Karakurt-class corvettes into the Fleet’s arsenal emerged as a significant event, enabling to boost the region’s Anti-Access/Area Denial (A2/AD) capabilities. In January this year, the Baltic Fleet received MSTA-S self-propelled howitzers.

26 May 2019

RUSSIAN ARMY ENTERS REGIONS TO CRUSH SOCIAL UNREST

Coordination centers for crisis management were announced to be created in all Russian regions and subordinated to the Russian army. Once set up, new institutions will serve the regime to quell public unrest and to prevent more serious social revolts. Having decided to establish such centers, the Kremlin seems no longer sure about its power structures, mostly the National Guard of the Russian Federation (Rosgvardia), tasked with putting down popular unrest. This is yet another signal that proves the growing political importance of the Russian army.

Recently, Russian Defense Minister Sergei Shoigu has announced that coordination centers for crisis management and martial law will be created in all regions. The first such center will open in Tula Oblast, governed by Putin’s former chief bodyguard Alexei Dyumin. So Tula Oblast will serve as a testing ground for the Kremlin’s new solution. Establishing coordination centers, along with appointing former members of military or services, has given a clear signal that the

Kremlin has given regional policy in the hands of the state’s power structures. These steps seem to reflect the Kremlin’s fears over potential problems to spark off somewhere in the country’s remote provinces, and that will be difficult to handle before they spread all over Russia, as evidenced by recent protests in Ingushetia, Arkhangelsk or Yekaterinburg. Neither the Ministry of Interior (police) nor the National Guard of the Russian Federation (appointed to deal with such tasks) managed



SOURCE: KREMLIN.RU

to suppress mass protests across the country, which prompted Putin's regime to fall back on a regular army. This, however, violates the fundamental constitutional principle, under which the military is responsible for fighting external threats.

As informed, the centers' main task is the coordination of information flows between military structures and regional executive authorities. Also, the centers will focus on reporting to Moscow about all socio-economic issues, crisis situations, and infrastructure state. Russian Defense Minister said that "in our turn, we will inform local executive authorities about changes in the military-political situation in the region and border areas."

No further details on how the centers are expected to function have been revealed yet though it is known that their activity will be

financed by local authorities. As reported, these coordination centers will be created following the example of the National Center for Defense Management—a military structure established in 2014 and subordinated to the General Staff of the Russian Armed Forces. Under the Russian constitution, the armed forces should handle external threats while—as illustrated by a planned network of regional crisis management centers—the Kremlin seeks to use the army to quell public unrest if such a need occurs. Simultaneously to establishing local crisis management centers, the Russian army is emerging as a domestic rival of the Ministry of Interior, Rosgvardia and the Federal Security Service (FSB). Also, this undertaking has solidified the political status of both the army and the defense ministry, meaning the construction of a military state management system, parallel to its traditional political counterpart.



SOURCE: KREMLIN.RU

26 May 2019

PUTIN'S PUBLIC TRUST RATINGS KEEP DROPPING

A recent poll has shown a decline in popular trust in Russian President Vladimir Putin, with the president's popularity having dropped in May to its lowest level since 2006. The results do not pose an immediate problem for Putin, who won a landslide election victory, securing a new mandate in March 2018, yet could impel Russian elites to think what will happen next after Putin's second term in office expires in 2024.

A poll released on May 24 by Russian state pollster VTsIOM found that Russians' trust in Putin had dropped to 31.7 percent, compared to 33.4 percent in January 2019. Despite the decline in trust, the president's overall approval rating has remained steady at 65.8 percent. Defense Minister Sergei Shoigu and Foreign Minister Sergei Lavrov continue to rank as Russia's second and third most-trusted politicians, getting 14.8 percent and 13 percent respectively. The president's trust rating rocketed in July 2015 following Russia's annexation of Crimea (71 percent) and began to plummet in May 2018 (47.4 percent), mainly due to the recession (decline in the standard of living), the increase in the VAT rate and the unpopular pension reform. Only 33.4 percent of Russians declared their trust in

the president in January 2019, compared to 32 percent in March.

Putin's bids to reverse this negative tendency so far have turned out to be doomed to fail; neither his war rhetoric nor attempts to intimidate Washington with nuclear war and to brag about Russian-made ultramodern weaponry proved helpful, though. Neither was effective the Kremlin's change in its hitherto policy and promises to focus on social issues, as declared by Putin in his presidential address to the Russian Federal Assembly in March 2019. Several Russian regions have recently experienced mounting tension while its inhabitants have been staging protests, such as in Ingushetia where people objected to a border deal with Chechnya or in

Arkhangelsk Oblast where locals revolted against a planned landfill state in the city. To make matters worse, authorities in Yekaterinburg withdrew from a controversial plan to build an Orthodox church in a popular park after local residents had opposed to the idea. Also, Putin has had no international victories to boast about, distracting the people's attention from domestic issues. Russia is deeply plunged in conflict with the United States while Donald Trump has, according to

Moscow, failed to meet the Kremlin's hopes. In fact, Putin has no room to maneuver to improve his popularity ratings. The sole solution is to get ready for mass protests, with Russian power structure currently being strengthened, and to come up with the least risky idea to solve the problem of Putin's leaving office in 2024, making him preserve power in the country after his second consecutive term in office expires, as the third one is banned by the Russian constitution.



SOURCE: KREMLIN.RU

27 May 2019

RUSSIA DEPLOYS MORE TROOPS TO AFRICA

Russian authorities have consistently striven to expand the country's influence on African soil, through both economic cooperation and arms exports and military presence in African countries. The presidents of Russia and the Republic of Congo have inked a bilateral agreement on dispatching Russian military specialists to the latter country while the official representation of the Russian army was established in the Central African government.

On May 23, Vladimir Putin received his Congolese counterpart Denis Sassou Nguesso in the Kremlin where a bilateral

agreement was signed between the two countries. Under the deal, Russia committed itself to send military specialists to the

Republic of Congo who—as officially informed by the Russian side—will train Congolese soldiers and help to service Soviet-made munition. Deputy Defense Minister Alexander Fomin said that the contract in the first place concerned the maintenance and operation of Soviet- and Russian-made military hardware.

The Congolese army has in its inventory armored vehicles, artillery and helicopters. The recent agreement may serve as the first step to tighten arms cooperation between the two countries. TV Zvezda, the Russian Defense Ministry’s official channel, has informed that Russia and the Republic of Congo have discussed possible supplies of Russian-made military hardware.

Kremlin spokesman Dmitry Peskov said Russia is sending military specialists to service Russian-made military equipment there, dispatched to the Republic of Congo sometime ago. It is unknown how many Russian troops will eventually be deployed to Congolese soil nor is it sure that what has been officially stated will be the sole purpose of their stay in Africa, as exemplified by

Russian military involvement in other African countries.

Russian private military companies so far have been reported to operate in several African states, including Sudan and the Central African Republic. Moscow sent to the latter country contractors from the Wagner Group, a mercenary army, to safeguard the exploitation of mineral deposits by Russian companies yet the official reason is to provide the local government with support in its struggle against Islamists. Although Russian troops have been present in the Central African Republic for more than a year, it was only recently that a special department tasked with representing the Russian army was established as part of the Central African Defense Ministry. Financed by the Russian state, the body consists of five people. This step has corroborated ever-increasing cooperation between Moscow and the CAR as a country playing a pivotal role in the Russian plan to expand its influence in Africa, also due to its geographical location.

28 May 2019

RUSSIA’S SILOVIKI HEAD TO TAJIKISTAN, MOSCOW’S IMPORTANT ALLY

Top officials of Russia’s power structures paid a visit to Tajikistan’s capital of Dushanbe within a few days exactly several weeks after a meeting held between presidents of the two countries. Moscow has in recent time boosted its diplomatic activity in bilateral Russian-Tajik ties. And while the Tajik authorities seek both military and economic cooperation, the latter of which includes thousands of Tajik citizens working in Russia, the Kremlin holds interest in the country primarily due to its strategic location. And Tajikistan, which has been home to a Russian military base since the fall of the Soviet Union, borders with war-ravaged Afghanistan.

On May 28, Russian Defense Minister Sergei Shoigu arrived in the Tajik capital of Dushanbe for talks. The one-hour discussion between Shoigu and Rahmon

was first held behind closed doors in the Nations’ Palace. In an official statement issued shortly after the meeting, the president’s office emphasized a “strategic partnership,” adding



SOURCE: ENG.MIL.RU

that Rahmon called during the meeting the development of Russian-Tajik military cooperation “a priority of Tajikistan’s foreign policy.” Shoigu then held talks with his Tajik counterpart Sherali Mirzo. As concluded during the meeting, Tajik military forces will take part in the Tsentr (Center) military maneuvers in Russia and in the Collective Security Treaty Organization’s war games in Tajikistan this year. After the talks, Shoigu inspected the Russian military base in Dushanbe being part of Moscow’s military facilities on Tajik soil. About 7,000 troops from Russia’s 201st Motor Rifle Division are deployed to three facilities across Tajikistan. Under the latest lease agreement of October 2012, Russian military forces will be stationed in Tajikistan until 2042.

The main reason for the Russian military presence in the region is an unstable situation in neighboring Afghanistan and the alleged threat of IS expansion into the former Soviet republics in Central Asia. It is likely that Moscow will shortly strive for boosting its presence in Tajikistan in a bid to implement its ambitions regarding Afghanistan. Russian

Federal Security Service (FSB) chief Alexander Bortnikov traveled to Dushanbe on May 21. During his visit, he said that militants from the extremist group Islamic State have accumulated their forces in northern Afghanistan.

Recent visits of the Russian defense minister and the head of the FSB in Dushanbe are probably intended to clarify and put into action some general arrangement made during Rahmon’s two-day trip to Moscow in mid-April. Back then, the Tajik leader met with Russia’s senior politicians to discuss the situation of Tajik economic migrants in Russia. Following talks in the Kremlin with Putin on April 17, both leaders signed a raft of documents strengthening bilateral cooperation between the two countries. Although it was officially admitted that Putin and Rahmon discussed economic issues, they also focused on security matters, as it was later revealed. The Kremlin released a statement saying the two leaders agreed to continue joint efforts to “fight against terrorism, extremism, drug trafficking, and the illegal trade in weapons.”



SOURCE: LUKOIL.COM

28 May 2019

RUSSIA HOPES TO INCREASE OIL OUTPUT

The oil output-cut agreement is set to expire by the end of June 2019, putting an end to six months of restriction in oil production imposed on OPEC+ countries. And it is possible that this will also halt the belt-tightening policy, making the oil-producing countries, with Saudi Arabia and Russia at the forefront, surge their overall oil output.

The next OPEC+ summit will be held in late June. OPEC and non-OPEC energy ministers will meet for talks in Vienna on June 25–26 to discuss the possibility of increasing oil output instead of reducing further production. Russia is the leading proponent of either partial or full withdrawal from the deal in force that stipulates that its domestic production drop to 1.2 million barrel per day from a baseline in October 2018. This came even though Russian exporters are increasingly gaining on OPEC+ restrictions; as reported, Urals crude exports rose to an almost two-year high in April this year as a result of a small amount of high- and mid-sulphur grades on the global market.

Moscow's official stance will not have been revealed until the OPEC+ summit. Even

though Russia has stated that it is capable of boosting its oil output by 300,000 barrels per day. Like other Russian firms, the country's largest oil producer Rosneft is in favor of a surge in oil output after the deal expires at the end of June 2019. Not incidentally, in its report summarising the first quarter of 2019, the state-owned oil giant informed that it "has significant potential to quickly boost oil production" if output restrictions are eventually loosened. And Russia does not seem particularly committed to fulfilling its obligations under the OPEC+ deal, being in no rush to implement further limitations on the pretext of weather conditions or geological challenges. In consequence, Moscow complies to the agreed output level right before the deal expires. As for now, Moscow has managed to achieve this goal in May, so one month before

the six-month period was set to end.

Moscow's even partial withdrawal from reducing its oil output is likely to happen if one takes into account the situation on the global market, which shows the feasibility of a decrease in oil supplies worldwide. This is to be owed to a set of different factors, including

U.S. sanctions on Iranian oil exports, possible Gulf war, Venezuelan oil crisis following Washington's limitations on the country's PDVSA or escalation of the Libyan civil war. All these may mean a rapprochement in Russian and Saudi stances on a surge in oil output.



SOURCE: MID.RU

28 May 2019

TALIBAN'S VISIT TO MOSCOW COMES AS PART OF RUSSIA'S AFGHAN INTRIGUE

Russia continuously threatens with alleged danger from the so-called Islamic State and back the Taliban. It also called on the parties to the conflict to launch a peaceful dialogue while urging the United States and NATO to withdraw from the war-ravaged country. Moscow's primary goal in Afghanistan consists of becoming a key mediator in the Afghan civil war and securing dominant influences in Kabul.

A large 14-member delegation of the Taliban headed by Taliban deputy leader Mullah Abdul Ghani Baradar arrived in Moscow to hold talks with senior Afghan politicians and tribal elders. Russia committed

itself to hold the event under the pretext of the centenary of diplomatic relations between Russia and Afghanistan. Already at the beginning of the event, Russian Foreign Minister Sergei Lavrov has called for the

complete withdrawal of international forces from Afghanistan. The summit was also attended by former Afghan President Hamid Karzai and Afghan Ambassador to Russia Mohammad Latif Bahand. Yet it was not confirmed whether the Kabul government representatives would hold a meeting with the Taliban.

Also, Russia did not mind welcoming the militant movement designated a terrorist organization. Russian-U.S. rivalry has also gone beyond its traditional scopes and refers now to peace talks. U.S. Peace Envoy Zalmay Khalilzad has held several rounds of talks with the militants in Qatar in recent months. Although some progress has been made, the Taliban so far have disagreed with taking part in direct negotiations with the government in Kabul and a summit planned for April in Qatar was canceled. Meanwhile, Moscow has offered to mediate in the talks. Taliban officials had met Afghan politicians in Moscow in November 2018 and February 2019, but those talks had not included members of Ghani's

government.

Russia has long provided support for the Taliban, both politically and militarily, as pointed out by Washington. Moscow has justified its ties with the Taliban with an exaggerated estimate of the threat from the so-called Islamic State in neighboring Afghanistan, an area of struggles between the Taliban and IS fighters. Moscow has also used the Islamic State to intimidate such countries as Tajikistan. During his visit to the Tajik capital of Dushanbe on May 21, Alexander Bortnikov, the director of Russia's Federal Security Service (FSB), said that IS jihadists were, in particular, deployed to northern provinces of Afghanistan, close to the borders of former Soviet republics. Bortnikov claimed that as many as 5,000 militants had gathered in the area yet Washington estimated their number in Afghanistan not to exceed 2,000. However, Moscow's goal is to scare countries such as Tajikistan to make them tighten security cooperation in Moscow (army and special services).

29 May 2019

RUSSIA BLASTS RECENT KOSOVO-SERBIA TENSIONS

Russian Foreign Minister Sergei Lavrov denounced a raid launched by Kosovo police in the Serb-dominated north of the country as “provocation.” Among detained in the incident was a Russian citizen, released after Moscow's intervention. The incident sparked off Serbia's violent reaction, prompting the country to put its army on full combat readiness. For its part, Russia may take advantage of the latest conflict on the Serbian-Kosovo border in its bid to destabilize the situation across the Western Balkans.

A major operation staged in Kosovo against organized crimes sparked outrage worldwide. This marked the culmination of a months-long investigation of criminal groups involved in smuggling, abuse of power, bribery and illegal trade. The problem is that the police action was carried out on May 28 in the Serb-populated part of the country. During the operation, Kosovo's police

officers faced resistance from the inhabitants of the region. Dozen of local police officers were in total arrested, among whom were ethnic Serbs, mainly accused of smuggling. Belgrade responded to what it referred to as intimidating the Serbian minority by ordering to put its armed forces on full alert. In consequence, a meeting of the Serbian National Security Council was held while



SOURCE: MID.RU

President Aleksandar Vučić has warned the European Union that Serbia will react if Kosovo does not pull its special police out of northern Kosovo.

Recent tensions between Belgrade and Pristina traditionally served as a pretext for Russia to intervene, this time giving Moscow an excuse to intervene. Kosovo's police forces detained a Russian UN employee of UNMIK, the United Nations mission stationed in Kosovo who was released shortly after Russia's diplomatic intervention. Not surprisingly, Moscow has taken advantage of the latest incident to lambast the West and its policy towards the Western Balkan region. In its official statement, the Russian Foreign Ministry spoke of "the absolutely unacceptable behavior" of the Kosovo authorities is the result of years-long attitude from the European Union and the United States, both of which gave their go-ahead for Pristina's provocations. Speaking to journalists during his visit to Slovenia on May 29, Russian Foreign Minister Sergei Lavrov claimed that Western forces hope to use the incident to create a "cordon sanitaire" around Russia, created by "drawing" the countries of the

region into NATO. Moscow pointed to an ever-increasing pressure on Serbia to recognize Kosovo's independence, a step that would pave its way for becoming a member of the North Atlantic Alliance.

So Moscow will probably incite the authorities in Belgrade to take radical steps against Kosovo. A spark is enough to ignite a broader conflict in the region. Any armed intervention made by Serbia will trigger off a direct confrontation with NATO peacekeeping forces stationed in Kosovo. And Belgrade's resentment will by no means be appeased in the light of the EU's Commission annual report on enlargement progress, published on May 29. Serbian Prime Minister Ana Brnabić lashed out against the European Union for using the double standards in relation to Kosovo. Belgrade held a grudge against Brussels after the latter did not respond to Pristina's efforts to establish in Kosovo the Community of Serb Municipalities, as stipulated many years ago. Also, Brnabić voiced her concern over the lack of the Union's firm response to Kosovo's decision to impose high customs tariffs on goods from Serbia.



SOURCE: TURKSTREAM.INFO

30 May 2019

GAZPROM'S TURKSTREAM SNEAKS INTO CENTRAL EUROPE

Russia's largest gas pipeline venture has so far been developing without significant problems that had slowed down the implementation of a gas project on the northern flank. Unlike the case of the Nord Stream 2 gas pipeline, Gazprom has not encountered any major obstacles while constructing TurkStream. What is vital for Gazprom is that successful offshore connections have been made between Russia and Turkey and that the pipeline will run through the Balkans to Central Europe.

Hungary seeks to launch a procedure to link with TurkStream in the early autumn of this year, Hungarian Foreign Minister Peter Szijjarto told Russia's TASS news agency in late May. The head of Hungarian diplomacy held talks with Gazprom's CEO Alexei Miller; earlier, Russia had sealed deals with Bulgaria and Serbia for building the gas pipeline. Hungary is ready to join TurkStream via the Serbian section of the pipeline. Hungary and Russia may sign an agreement on additional gas supplies at the upcoming St. Petersburg International Economic Forum, Szijjarto said.

These gas shipment might hold 2 billion cubic meters of blue fuel to be put in Hungarian storages and used if the country ran short of

gas. This might secure gas flows to Hungary in the case of problems with Russian gas shipments through Ukraine as their bilateral transit deal is set to expire by the end of the year. And negotiations on a new agreement have got stuck in a rut. If Russia came to halt gas flows through Ukraine, Szijjarto suggested a possibility of creating a southern gas transport route by extending the TurkStream gas pipeline that would further it to Slovakia via the Hungarian-Slovakian gas interconnector. Also, Budapest dismissed criticism over their plans to become reliable on Russian-sourced energy, claiming that they intend to diversify gas imports to grow independent from gas transit via Ukraine. In addition to gas shipments via TurkStream,

Hungary hopes to acquire energy supplies from the planned LNG terminal on the Croatian island of Krk and from Azerbaijani and Romanian gas fields off the Black Sea.

The new leg of the TurkStream pipeline will emerge as an alternative for Bulgaria if gas transit through Ukraine is brought to a halt. Sofia hopes for 15–16 billion cubic meters of natural gas to be pumped annually through the pipeline. Bulgaria's state-owned gas network operator Bulgartansgaz has recently changed a Bulgarian contractor tasked with constructing the TurkStream extension to a Serbian company. A consortium of Saudi Arabia's Arkad Engineering and

the Italy-based Arkad-ABB joint venture has been dropped from the investment because Arkad failed to present the necessary documents. The other bidder was the Italian-Luxembourgish GDEB alliance, allegedly holding ties to TMK, a Russian manufacturer of oil and gas pipelines. Under the new offer, the construction costs of the 474 km-long gas pipeline dwindled by one-third compared to the previous bid, making it meet the requirements of Bulgartansgaz. Once extended, the pipeline will run through Bulgaria, Serbia and Hungary to the Baumgarten gas hub in Austria, from where gas flows will be shipped through the already existing connections to Austria and Slovakia.

30 May 2019

LAVROV AND SHOIGU VISIT JAPAN – FAIL TO MAKE BREAKTHROUGH ON KURIL ISLANDS

On May 30, Russian foreign and defense ministers paid a visit to Japan to hold talks with their Japanese counterparts Takeshi Iwaya and Taro Kono. The meeting ended in failure as no progress has been made in the years-long territorial dispute over the Kuril Islands. So Russia and Japan chose to focus on military issues, with the latter protesting against Moscow's military buildup plans in the disputed area.

Speaking at a press conference in Tokyo, Russian Foreign Minister Sergei Lavrov said that Russia was concerned over Tokyo's plan to build a pair of Aegis Ashore missile defense systems, saying they pose a "potential threat to Russia." As informed, the Aegis Ashore systems, which are planned for deployment in Akita on Japan's northern coast and in Yamaguchi in the southwest, will bolster Japan's ability to counter potential threats from North Korea and China. Japanese Defense Minister Takeshi Iwaya told Shoigu and Lavrov that the Aegis Ashore systems are "purely for defensive purposes and never for use to intimidate Russia or other countries."

For his part, Japan's Foreign Minister accused Russia of a military buildup in the disputed islands, referred to as the Southern Kurils by Russia and the Northern Territories by Japan. The Japanese government does not accept Russian military drills held in the area, deploying aircraft or Moscow's military buildup. Tokyo opposed Russian war games held in the Kuril Islands in April this year. In March, Russia carried out military drills on the two other disputed islands, Kunashiri and Iturup. Up to 500 troops, including artillery units, took part in the exercises. Shortly after the talks in Tokyo, Lavrov dismissed Japanese claims, saying that Russia is entitled



SOURCE: MID.RU

to do whatever it finds appropriate in its own territory.

Japan upheld its stance of retrieving four islands that had been occupied by the Soviets along with the entire archipelago in the summer of 1945. This is why Russia and Japan have not yet signed a formal peace agreement. In September 2018, Russian President Vladimir Putin said both countries should

sign a peace deal with Japan “without any preconditions” yet Japanese Prime Minister Shinzo Abe rebuffed Moscow’s offer, saying that efforts should be first made to tackle the dispute over the Kuril Islands. In November 2018, Abe and Putin agreed to accelerate talks toward concluding a peace treaty based on a 1956 declaration, which stipulated the return of two of four disputed islands to Japan. So progress has stalled ever since.



SOURCE: GAZPROM.COM

31 May 2019

U.S. THREATENS SANCTIONS OVER RUSSIAN NORD STREAM 2 PROJECT

If Republicans and Democrats from the Trump administration and the U.S. Congress, which stand on different sides of the political barricade, can unite their forces, they may speak with one voice when criticizing Gazprom's Nord Stream 2 energy pipeline project. In May, bipartisan efforts were made to intensify work on sanctions targeted at entities involved in building the Nord Stream 2 gas pipeline running from Russia to Germany while U.S. Energy Secretary Rick Perry declared in Brussels and Kiev that introducing a restrictions package is just a matter of time. U.S. steps are unlikely to be taken for granted, though. Washington has long announced new restrictions to be introduced but what it said was yet not backed up by any firm actions. It, however, seems that rethinking the issue of Nord Stream 2 serves as an element of Donald Trump's political game with Russia and – most importantly – also with Germany.

The United States has long rebuffed Gazprom's Nord Stream energy export pipeline project, mainly for geopolitical reasons. Washington said that the gas pipeline will make a part of Europe rely on Russian-sourced energy while all profits from selling gas will serve Moscow to boost its weapons arsenal. But the U.S. stance towards Nord

Stream 2 seems to a great extent influenced by purely business calculations, or ever-increasing U.S. LNG exports to Europe. While visiting Brussels in May, U.S. Energy Secretary Rick Perry compared the American fuel to the U.S. helping liberate Europe from Nazi Germany occupation in World War II. The export of U.S.-sourced liquefied natural gas

(LNG) to Europe has experienced continuous growth, which results from the U.S. increasing export capabilities, as illustrated by launching Gulf Coast LNG terminals, and a dramatic drop in LNG spot prices on Asian markets. This has made Europe an attractive outlet for U.S.-sourced energy, all the more so that shipping costs to the Old Continent are lower than directing LNG exports to the Far East. Another factor behind sending large amounts of liquefied natural gas from Asia to Europe was the U.S.-China trade war.

But energy prices have experienced a sharp decline in Europe, triggering off bitter reactions from U.S. exports in Texas or Louisiana. Not incidentally, most proponents of the U.S. sanctions to be imposed against Russia come from Texas, a state that has recently seen growth in the number of LNG terminals. Among the leading U.S. politicians lobbying for passing the “anti-Nord Stream 2” bill are Senator Ted Cruz and Congressman Michael McCaul, both of whom represent the Grand Old Party. But the law was supported by some members of the Democratic Party. The Foreign Affairs Committee of the U.S. House of Representatives unanimously approved a resolution submitted by Washington Democratic Congressman Denny Heck.

The document calls on Congress to “continue to oppose construction of the Nord Stream 2 pipeline and other Russian Federation gas pipelines in northern Europe and take affirmative diplomatic steps to halt the construction of such pipelines.”

Fiercer efforts need to be taken to fight both for the market and the customer. And no one should be surprised by mounting anti-Nord Stream 2 sentiment if it is possible to strike a blow against a rival. The U.S. Senate has published a draft bill to impose sanctions concerning vessels working for the construction of Nord Stream 2 and refuse to issue visas to managers of companies holding ties to these ships. U.S. lawmakers also seek to introduce a ban on U.S. “property transactions and on interests” held by such individuals. Last but not least, they provide for imposing punishment on all commercial entities that provide insurance to the Nord Stream 2 venture. When visiting Kiev to attend Volodymyr Zelensky’s swearing-in ceremony, U.S. Energy Secretary Rick Perry said that restrictions on companies involved in the Nord Stream 2 project would come in the “not too distant future.” Also, Ukraine’s Prime Minister Volodymyr Groysman has invited Perry to unite efforts to counter the Nord Stream 2 natural gas pipeline project.



SOURCE: NOVATEK.RU

31 May 2019

OIL AND GAS DISCOVERIES AND INVESTMENTS IN THE RUSSIAN ARCTIC

The hydrocarbon sector in the Russian Far North has seen the rapid development as evidenced by discovering oil-rich fields by the Yenisei River or Novatek's plans to build the third LNG project in the Yamal region. Private and state-run oil companies are making their best efforts to surpass one another while outlining their ideas on expanding oil infrastructure and production. Oil and gas exports are foreseen to become the core activity intended to develop this Russian region, being at the same time the Kremlin's top priority.

Russian gas producer Novatek has announced the development of a third LNG project in the Yamal region. The Ob LNG will be based on the resources of the Verkhnetiuteyskoye and Zapadno-Seyakhinskoye fields, both located in the central part of the Yamal Peninsula. The fields are estimated to hold 157 billion cubic meters of gas. As informed, Novatek's projected new plant will produce up to 4.8 million tons of LNG per year. The new plant will be built in Sabetta, near the installations serving the Yamal LNG facility. Implementing the Ob LNG project, along with building adjacent infrastructure and gas condensate facilities, is estimated to cost \$5 billion. The new plant is set to become operational in 2023.

The development of the Ob LNG will run parallel to the Arctic LNG 2, the biggest project being currently developed on the nearby Gydan Peninsula. Estimated to produce up to 19.8 million tons, Arctic LNG 2 will be the first of the predicted three trains to be ready by 2023. Novatek's first Arctic project, the Yamal LNG, has been made operational, with an annual production of up to 16.5 million tons of LNG. Unlike the two other ventures, Novatek hopes to construct the Ob LNG facility with exclusively Russian technology – this will be twice as cheap as if foreign technology was used.

Russia's state mineral extraction agency Rosnedra confirmed that a vast oil field was

uncovered in the Yenisey River delta where it runs into the Kara Sea, stored under the layer of permafrost. The Payakha field might hold as much as 1.2 billion tons of oil, the biggest estimates ever made for a Russian oil field. The field resources had earlier been said to be far lower, holding up to 600 million tons. Discovering new hydrocarbon resources and developing their extraction entail the need to launch the infrastructure expansion of the Northern Sea Route. A vast Payakha oil field may become one of the primary sources for oil export through this route and will be of great importance for an energy project developed by Russian oil giant Rosneft. The oil firm intends to construct a new Arctic oil pipeline. The 600 km-long pipeline will run from the Vankor fields in western Siberia to the coast of the Taymyr Peninsula. It will have an annual

capacity of 25 million tons of oil and one of its supply sources could potentially become the Payakha field.

More gas and oil from the Russian Far North will be exported and further expansion of a fleet of icebreakers will be needed to make the Northern Sea Route navigable all year. In April, Russian President Vladimir Putin said Russia was making efforts to step up construction of icebreakers to boost the total capacity of the Northern Sea Route. By 2035, Russia will have at least thirteen icebreakers, including nine nuclear-powered vessels. The third ship of the Arktika class was launched in late May. A nuclear ice-breaking vessel Ural will come in operation in 2022 after the two other Arktika and Sibir-class ships enter service.

All texts (except images) published by the Warsaw Institute Foundation may be disseminated on condition that their origin is stated.

© COPYRIGHT 2019 The Warsaw Institute Foundation

The opinions given and the positions held in materials in the Russia Monitor solely reflect the views of authors.



The Warsaw Institute Foundation
Wilcza 9 St., 00-538 Warsaw, Poland
+48 22 417 63 15
office@warsawinstitute.org
