RUSSIA MONITOR

MONTHLY

July 2019

WARSAW INSTITUTE

CONTENTS

SOURCE: STRUCTURE.MIL.RU

8 July 2019

IS TUREXIT POSSIBLE? ANKARA'S NEW S-400S IS NATO'S PROBLEM

Ankara's determination to acquire Russian-made missile systems will enrage both its NATO peers and the United States. But Recep Tayyip Erdogan hopes U.S. President Donald Trump will block Washington's sanctions on Ankara. Yet this does not change the fact that outfitting the Turkish army with S-400 air defense missiles poses a threat to the security of the entire Alliance. It is to expect that NATO will drastically cut short cooperation with Ankara yet while making an attempt to seek a compromise. Excluding from NATO a strategically located country with such a numerous army does not offer benefits to the Alliance. And a similar solution is not at all sought by Turkey, either.

Russia has de facto begun delivering its S-400 air defense systems to Turkey, local media outlets have informed. And this corroborates the fact that neither the meeting between President Recep Tayyip Erdogan and Donald Trump at the Osaka summit nor the latter leader's conciliatory declarations led to any substantial conclusions. The Turkish leader said the next day that Russia plans soon to deliver its S-400 missile defense systems to Turkey. Ankara's purchase of Russian-made military hardware may trigger U.S. sanctions under the CAATSA law, a solution being now on the table. Under CAATSA, the Trump administration must choose five options from a menu of 12 sanctions to place on Turkey, ranging from imposing restrictions on Turkish exports, cutting Turkey off from U.S. financial institutions or sanctioning Turkish citizens involved in purchasing the S-400 air defense systems. Erdogan claimed he was reassured by his U.S. counterpart that Washington would not impose sanctions on Ankara. The Turkish president hopes Trump will not use a privilege to launch restrictions against his country.

Russian-made S-400s would pose a threat to U.S. F-35 fighter jets, with Turkey participating in its production process and holding interests in acquiring a batch of aircraft. The S-400 radar systems could be developed to detect F-35 planes, making them easily identifiable. NATO also spoke out against the Russian-Turkish deal, claiming that the Russian-made weapon is not compatible with the Alliance's military systems. Washington has formally launched the process of removing Turkey from the F-35 program. Erdogan said it would be "robbery" for the United States to deny Turkey the F-35 fighter jets it has bought, adding that Turkey had already paid $1.4 billion for its order of 116 F-35s. Back in August 2018, only two U.S fighters were delivered to Ankara. The dispute over the S-400s is neither the first nor the most severe reason for strains in Turkish-Western ties. In the wake of Turkey's failed military coup in 2016, U.S. Secretary of State John Kerry condemned the Turkish government for forceful repression of political opponents while warning that this undermined Ankara's further NATO membership. In 2017, Erdogan withdrew 40 of its troops from a NATO military drill in Norway.

Turkey had long served as a barrier to Soviet expansion at the southern bit of the Cold War front, using its NATO's second-largest military forces and close ties to Washington to prevent Moscow from entering the Middle East. But for several years Turkey has been gradually yet consistently joining the Russian sphere of influence, even though Ankara and Moscow were on the brink of war after the former downed a Russian warplane near Turkey-Syria border in the autumn of 2015. Ankara's crackdown on its fellow NATO allies has by no means been triggered by Erdogan's authoritarian rules or the ongoing Islamization of the country. Tensions ran high after the Syrian conflict broke out, with Turkey's holding grudges against NATO member states, accusing them of having left Ankara alone in the face of a growing threat from Damascus. While saying so, Erdogan did not mean al-Assad or jihadists, but Kurds whose YPG militia got U.S. support in its fight against the Islamic State. Russia's firm entrance to the Syrian conflict became a decisive point, initially leading to strains in its ties with Ankara that ran high after Turkey had shot down a Russian aircraft. Moscow's response consisted in boosting military involvement in the region and waging the trade war with Turkey, back then in favor of toppling the government of Bashar al-Assad. Six months passed since that moment, marking a sharp tilt in Turkish-Russian relations and prompting the two countries to forget about past resentments and start to cooperate. Ankara seeks to foster both an economic aspect of this partnership, including Russian trade outlets, tourists, Russian-sourced gas and building a nuclear power plant, and a common stance on Syria. Having no other choice to choose its partners in Syria's war theater, Erdogan focused on bolstering cooperation with Moscow and Tehran under the Astana format. Ankara's ties with Israel have dramatically deteriorated while those with the United States are getting worse and worse, given that the latter offers firm support to the Kurds, a useful ally in the war against the Islamic State in Syria. Also, Turkey has solidified cooperation with Qatar, hinting worse relations with Saudi Arabia and the United Arab Emirates. This has affected Ankara's ties with the United States and, to make matters worse, has been a blow to NATO's internal cohesion. Turkey has long made efforts to acquire air defense missile systems; a few years later, the country had almost sealed the deal with China but had to resign amid pressure from Ankara's Western allies. Having taken advantage of ever-closer cooperation with Putin, Erdogan inked an agreement to purchase Russian S-400s, posing a thorny issue to the entire North Atlantic Alliance that goes far beyond Turkey's bilateral relations with the

United States or other fellow NATO allies.

Ankara's determination to move ahead the S-400 deal made both Washington and the other allies in NATO question whether Turkey's membership in the Alliance makes sense, all the more so that the state no longer has such strategic importance it used to enjoy in the Cold War era. But will expelling Turkey from NATO structures offer benefits to all parties to the dispute? This would be a failure from the Alliance's point of view, given its commitments to heavily invest in a relationship with Turkey and to expand its military infrastructure over the last sixty years. And if Turkey is expelled from NATO, the Alliance will no longer be able to shape the situation in strategic straits connecting the Black Sea to the Mediterranean. Turkey's drifting outside the Alliance will boost NATO's enemies, leading to Ankara's feasible rapprochement with Moscow, Tehran or Beijing. But Turkey is not interested in leaving NATO structures, though the current situation, especially with regard to Syria, is now how it looks. As for the Kurdish issue, the United States and Turkey are now on opposite sides of the barricades. But this does not change the fact that Turkey and Russia were, are and will be geopolitical rivals. And what will happen in Syria, also in the rebel-held enclave of Idlib, will serve as a new turning point in the relations between Moscow and Ankara. But Erdogan is now seeking to purchase the S-400s, being conscious that the West will refrain from escalating tensions. Ankara will therefore try to weave between Moscow on the one hand and Washington and Brussels on the other in a bid to strengthen its position and achieve its goals, not only in Syria but also hoping to claim rights to rich gas reserves in East Mediterranean.

9 July 2019

MORALES'S VISIT TO MOSCOW: BOLIVIA DRIFTS CLOSER TO RUSSIA

Russian authorities keep solidifying their influence in Latin America. Naturally, their priority is to help save the Maduro regime in Venezuela, but Moscow also seeks to back Cuba and Nicaragua. And now Bolivia is facing an opportunity to rise in importance. Bolivian President Evo Morales will visit the Kremlin on July 11 to sign strategic partnership agreements between his country and Russia.

Bolivia has long stood as one of Russia's political allies in South and Central America. Leftist president Evo Morales was the first Bolivian leader to pay a visit to Moscow. During the ceremony to receive credentials from new Bolivian ambassador to Russia in October 2018, Putin noted that 120 years had passed since establishing diplomatic relations between the two countries. Also, Russian leader said that the Russian-backed Bolivian nuclear research and technology center is planned to be put into operation by the end of 2019. Bolivia is among other Latin American countries to side with Russia on

SOURCE: KREMLIN.RU

Venezuela's domestic conflict, recognizing Nicolas Maduro's authority and rejecting the U.S.-backed opposition leader Juan Guaido. Evo Morales is set to arrive in Moscow on July 11; the Bolivian leader last visited Russia in June 2018. While in Moscow, Morales will ink new strategic cooperation with Russia, first and foremost in the fields of armaments cooperation, trade and energy.

Bolivia is interested in buying Russian-made military hardware, with particular regard to aviation equipment, Evo Morales was quoted as saying. U.S.-made T-33 jets were retired from service in Bolivia in 2018 and La Paz now holds interest in procuring their Russian counterparts. "There are many Russian aircraft in Latin America," Morales said, adding that everything will depend on the findings of the experts. Russian-Bolivian technical military cooperation focuses on training Bolivian officers because China plays the role of the leading supplier of military equipment to the country. Beijing sends to Bolivia armored vehicles and communications systems and provides aid to purchase helicopters.

In the Kremlin's eyes, Bolivia does not present value to the same extent Venezuela does. Isolated deep in the continent, the former has no substantial raw materials deposits and is referred to as reasonably poor. But Moscow sees it as a valuable partner for two main reasons, first of all due to its role as a critical link in the region's pro-Chavist camp. Peru has recently invited Russia, China, Cuba, Bolivia, Turkey and dozens of other countries supporting Maduro to Lima on August 6 to discuss the political situation in Venezuela. While representatives of the Maduro regime were invited, the Venezuelan opposition did not receive an invitation to the meeting. And secondly, Bolivia holds some natural resources, including crude and gas, both of which seem tempting for Russian investors.

SOURCE: STRUCTURE.MIL.RU

9 July 2019

INF TREATY COLLAPSE IS RUSSIA'S FAULT

Moscow denied accusations of being to blame for the collapse of the Treaty on the Elimination of the Intermediate-Range and Shorter-Range Missiles, commonly referred to as INF. Europe's security ahead of the U.S. planned withdrawal from the Treaty on August 2 was part of the official agenda of the latest NATO-Russian Council meeting. And as initially expected, the bilateral summit failed to bring a rapprochement of positions. Moscow says it will not place medium-range missiles at locations where there are no U.S. weapons. But the problem is that Russia has already placed at least four battalions, with its decade-long treaty-breaching behavior leading to Washington's pullout of the agreement.

In its official statement released following the NATO-Russia Council meeting, Russian representatives wrote that Moscow has no intention to place "relevant weapons in Europe and other regions as long as there are no U.S. missiles of short and medium range there." Russia called on NATO allies to submit similar declarations. But while Russia already has such missiles, the United States is still working to develop them. Moreover, the Russian army has at its disposal at least four battalions armed with the SSC-8 weapons, known as the 9M729. In addition to a training battalion stationed at the rocket-testing development site in Kapustin Yar (Astrakhan Oblast), there are three more missile battalions in Kamyshlov, east of Yekaterinburg, in Mozdok in North Ossetia and in Shuya, close to Moscow. Each of Russia's battalions has four self-propelled launchers on wheels, each of which armed with four missiles. Russia has now at least 64 SSC-8 cruise missiles with a range up to 2,350 kilometers, if armed with a nuclear warhead, and up to 2,000 kilometers, with a half-ton conventional warhead.

Speaking after the NATO-Russia Council meeting, NATO Secretary General Jens Stoltenberg said he did not hear anything of Russia being willing to come back into compliance. President of Russia Vladimir Putin has signed a new law on suspending Moscow's participation in the INF Treaty. For its part, Russia cited Washington's decision to pull out of the agreement. The INF Treaty was signed by U.S. President Ronald Reagan and Soviet leader Mikhail Gorbachev in 1987. The agreement provided for liquidating intermediate-range ballistic missiles and medium-range missiles while banning both countries from developing, producing and deploying missiles with ranges between 500 and 5,500 kilometers. U.S. President Donald Trump announced that his country intended to withdraw from the INF Treaty, a decision that will formally take effect on August 2, claiming that starting from 2007, Moscow had regularly broken the agreement and had neither destroyed nor modified its missiles despite Washington's reiterations. Although the United States first informed about Russia's violation of the INF Treaty in 2014, the first signs had appeared as early as in 2008. But before Russia's annexation of Crimea, the Obama administration had not raised any public concerns over breaching the treaty.

10 July 2019

DRUZHBA PIPELINE FAILURE: BELARUS ASSESSES LOSSES, MORE SUSPECTS ARE COMING UP

A few weeks have passed since a major failure of the Druzhba oil pipeline and there is still no answer to the three key issues. First of all, the system has not yet been fully cleaned up. Secondly, Russia has still not decided to compensate foreign recipients for all losses incurred. And thirdly, investigators are probing into who is to be blamed for and, while new suspects are coming up, this does not answer the question whose fault it was.

Belarus plans to finish clearing contaminated Russian oil out of its section of the Druzhba oil pipeline by August 15, Belarusian Deputy Prime Minister Igor Lyashenko was quoted as saying. At the same time, Minsk seeks in details to put forward claims towards the Russian side and suggests plausible scenarios for their final settlement. Among one of the envisaged compensation options is revising transit tariffs for Russian oil, Director General of Belarus's Druzhba pipeline operator said. As reported by Gomeltransneft, the volume of oil transportation dropped from April to June by 4.7 million tons, resulting in financial losses of over $23 million. Minsk would need to raise its transit tariff for Russian oil by 21.7 percent to compensate it for the Druzhba failure. Another option on the table is pumping a comparable amount of clean crude to Belarus as the one initially planned for 2019. Due to tainted oil flows, Minsk received 650,000 tons of oil less than earlier

SOURCE: SIBERIA.TRANSNEFT.RU

agreed on. Between January and April 2019, Belarus's crude products exports slumped in consequence by 17.3 percent. The Belarusian government argued that all losses incurred amounted to $320 million, with an additional $20 million in losses for damaging the Mozyr refinery equipment. Both the Belarusian government and the pipeline operator Gomeltransneft Druzhba said that they will bring the case to the court if both sides fail to reach a repayment agreement.

Also, Belarus accused Transneft of not having notified about dirty oil flows and obstructing access to samples of oil taken following the April failure. From the beginning, Russia has made attempts to fool and conceal some facts from foreign partners and domestic public opinion. The number of suspects Russia is investigating over a major oil contamination in the Druzhba pipeline has risen to 13, half of whom work for the Druzhba Transneft subsidiary, including local pipeline management units and the Lopatino metering unit. Oil probe is now drifting towards the company, even though several small private-held companies from the Samara oblast had initially been considered guilty of decaying oil flows in the Druzhba pipeline. But blaming these small entities soon turned out to be nonsense, all the more that they would not have been able to pollute the Druzhba pipeline on a large scale. Suspicion has attached to representatives of the state-owned pipeline operator. But this does not answer the question of who admitted a large amount of tainted crude into the system. As unofficially reported, more and more shreds of evidence are coming against Rosneft, with the company's management having reportedly been aware in advance that tainted oil supplies would be pumped via the pipeline.

SOURCE: KREMLIN.RU

14 July 2019

RUSSIA AFTER 2024: CHANCELLOR PUTIN SEEMS AN UNLIKE SCENARIO

Shortly after Vladimir Putin took the oath of office for his next term as Russian president, many speculated what the Kremlin's host would be able to do in a bid to remain in power after his two consecutive terms expire in 2024. Under one of many theories that have recently resonated in the media, Putin could serve as a prime minister, however enjoying greater powers, a shift possible thanks to changing election rules. What was reported by a Western news agency Bloomberg, quoting its anonymous sources in Moscow as saying, resembled an instance of disinformation and the Kremlin's self-made test rather than anything else.

Under current law, half of State Duma deputies are elected by party lists (proportional system) while another half – in single-seat districts (majority system), which gives in total 112 and 112 people. As reported by Bloomberg's sources, the Kremlin is now considering cutting the share of seats named by party lists in the State Duma lower house of parliament to only 25 percent while increasing the number of deputies elected in single-seat districts up to 75 percent. The changes would take effect for the next parliamentary elections in the autumn of 2021, with United Russia politicians running as nominally independent in single-sea districts. So what is the point of altering election rules in Russia? This step would make the Kremlin retain control over the State Duma if the ruling United Russia party became too weak to get a parliamentary majority. In doing so, Putin could be capable of remaining in power after his second consecutive term in office expires in 2024, with the Russian constitution preventing him from seeking the third presidential term. Russia's incumbent head of state would de facto continue to rule Russia as party leader and prime minister with enhanced constitutional powers, albeit at the expense of those wielded by the president. To put it bluntly, what the Kremlin is considering seems to prompt a tilt towards the chancellor system.

But this raises considerable doubts, though. But if the Russian constitution were to be amended, it would be way more convenient to abolish the limit of presidential tenures held by one person, a far better and more natural solution to extend Putin's rule rather than to make him a prime minister yet equipped with chancellor's powers. There are two possibilities to enable Putin to still sit as Russian president after the end of his term in 2024. The first is to enact constitutional changes helping Putin extend his presidential tenure for more than two consecutive terms in office or merge with Belarus to modify the state situation, while the other would take into account appointing the incumbent president to serve a new position to wield actual power over the country, for example as the chairman of the State Council, a post to be given some extended powers. A political worn-down within United Russia structures seems visible, with the party affiliation being no longer a guarantee of success, as evidenced by recent elections for local and regional legislatures. So why to push forward the plan to strengthen the parliament while using several methods to gain a majority in the State Duma if there is another solution to the problem of the Kremlin's weak functionaries, which consists in diminishing the importance of the parliament to the benefit of the Kremlin.

16 July 2019

"DRUZHBA EFFECT": LOWER OIL OUTPUT WILL HIT RUSSIA'S GDP

Russian oil production collapsed in early July, dragged by decreasing output from Rosneft, the country's largest crude producer. And this stems from the firm's limited exports capabilities following the Druzhba pipeline contamination crisis, resulting in both from equipment failure and a restrictive policy pursued by the Russian state-owned oil pipeline operator Transneft. Lower revenues from selling oil abroad will negatively affect Russian economic growth, with gas and coal prices in Europe having fallen and Russian industrial production being still in decline.

Russian oil production fell close to a three-year low in early July, to 10.79 million barrels per day. This is the lowest level of extraction since August 2016, when it stood at 10.71 million barrel per day. Oil output at Rosneft was reported to have plummeted by 11 percent in the first week of July from June's average. And the firm's curbed results arose from a situation in Yuganskneftegaz, its western Siberian subsidiary, where oil intake dropped by as much as 30 percent. What is the main reason behind a decline in Rosneft's output? It seems to be due to an ever-intensifying conflict that occurred following the Druzhba contamination crisis. Rosneft's CEO regularly lambasted the Druzhba pipeline operator, but Transneft eventually took revenge and tightened control over the quality

SOURCE: TATNEFT.RU

of oil supplied by Sechin's firm. This put to a halt Rosneft's oil flows from some of its deposits due to their poor quality, which might potentially corroborate rumors that Druzhba's failure was brought about by Sechin's company that had pumped into the pipeline large amounts of tainted crude in short time.

The July slump in production took place after Russian oil output rose to 11.15 million barrels per day in June from 11.11 million bpd in May 2019. Russian-based firms boosted oil extraction in June while output at fields run by foreign companies dropped by 11.2 percent from the levels in May 2019. Despite the rise in the June production, Russia was complying for a second consecutive month with what it vouched under the OPEC+ deal, consenting to diminish output from the post-Soviet record level of 11.421 million barrels per day (October 2018) to 11.191 million barrels per day. Russian Energy Minister Alexander Novak said that domestic oil production in June was 50,000 barrels per day below the level Moscow had declared under the OPEC+ output cut deal. Russia says it keeps the word while cutting production in the country, but these reductions are not made by choice, deriving instead from a massive technical failure of the Druzhba pipeline, an incident that both reduced exports and influenced crude production, making oil flows improper to be sent further to Europe.

The decay in oil exports and extraction will to a greater extent strike a blow against Russia's GDP, with recent months having seen a systematic fall in industrial production that might have slightly for compensated fluctuating gas, oil and coal exports. Russian gross domestic product (GDP) growth did not surpass 0.5 percent in the first quarter of this year while slowed down to 0.2 percent in May. But this was all based on good results of oil, gas and coal output and the period of Russia's gas and coal prosperity has begun coming to its end over the past six months. Gas prices are dropping dramatically below the level assumed by Russia's federal budget. This also applies to coal whose prices waned to $47 per ton on the EU market, reaching the lowest level since June 2016.

SOURCE: KREMLIN.RU

19 July 2019

KREMLIN'S ELECTION INTRIGUE TAKES OFF BEFORE UKRAINIAN PARLIAMENTARY VOTE

In the final stretch to the upcoming parliamentary runoff in Ukraine, the Kremlin has boosted its activities, as exemplified by the meeting with the leader of Ukraine's pro-Russian opposition party, developing a fast-track passport procedure in Donbas or a tough stance on releasing the Ukrainian seamen. By doing so, Moscow hopes to make a powerful pro-Russian camp enter a new Verkhovna Rada.

Viktor Medvedchuk, known as an informal ambassador of Russia's interests in Ukraine, visited Moscow twice before the end of Ukraine's parliamentary campaign. On July 10, Putin's comrade took Yuriy Boyko to Moscow once again to meet with Russian Prime Minister Dmitry Medvedev. A similar meeting took place on the eve of the first round of Ukraine's presidential election in March this year. But on July 18, three days before an election to Ukraine's Verkhovna Rada, Ukrainian politician was received by Russian President Vladimir Putin in the Kremlin. The Russian leader said that what is extremely important for Moscow is to "to restore full-fledged relations between Russia and Ukraine." And the very fact that these words came in the presence of the leader of the Opposition Platform – For Life party is a signal to Zelensky and Ukraine's new ruling camp that any bilateral talks will take place if Viktor Medvedchuk, Putin's close friend and chief of staff to former Ukrainian President Leonid Kuchma, is invited to the negotiating table. Russia makes its neighbor understand that gas transit agreement is more likely to be sealed if Medvedchuk's party receives full support from Ukrainian citizens. Also, the duration of Russia's gas contracts with Ukraine expires at the end of 2019, one of which concerns supplying Russian-sourced energy to Ukraine, albeit it has not been put into practice for a few years while another one refers to Russian gas transit. For its part, Moscow played on time to delay further negotiations on gas transit until Ukraine's new ruling team came to power. What is more, Russia tempts its neighbor with resuming cheap gas supplies. At the July 10 meeting with Boyko and Medvedchuk, Medvedev suggested creating a joint Russian-Ukrainian gas transmission consortium in charge of operating pipelines running through Ukraine's territory.

Among issues in Kiev-Moscow bilateral relations is Putin's push for forcing the Ukrainian authorities to hold direct talks with representatives of so-called people's republics in Russia-occupied Donbas. This goes in line with Moscow's narrative on the Ukrainian "civil war" while shifting responsibility for the conflict away from Russia as an actual perpetrator. The Kremlin's drive to exert pressure on Zelensky in this matter is best evidenced by the fact that Putin issued an expanded decree on the simplified procedure for obtaining Russian citizenship to include residents of Donetsk and Luhansk regions. Also, his July 17 decision came on the eve of the meeting with Medvedchuk and expanded the scope of the April decree allowing simplifying the process for Ukrainian citizens living in Russia-occupied territories to get Russian citizenship. According to the new document, residents of the Kiev government-controlled parts of Donetsk and Luhansk regions can also use this system to get fast-track passports. Recognizing Zelensky's strong push for halting the fights and enabling Ukrainian hostages serving jail sentences in Russia and Donbas to return home, the Kremlin employs the carrot-and-stick approach. For instance, it rejected Kiev's demand to release Ukrainian seamen who have been held in captivity since November 2018. Ukraine and Russia have agreed a prisoner swap expected to involve a total of 277 people, with Ukraine handing back 208 captives to pro-Russian separatists from so-called people's republics but taking back only 69.

20 July 2019

RUSSIA'S WARMER TIES WITH GERMANY

German exports to Russia are still growing while the construction of the Nord Stream 2 energy pipeline is advancing despite joint efforts made by its opponents. Participants of the Petersburg Dialogue forum therefore have good reasons to be pleased with the outcomes of the meeting. Russian-German top-level political ties are becoming better and better, as proved by the first meeting since the annexation of Crimea held between Russia's and Germany's foreign ministers at the sidelines of the Russian-German forum.

The Petersburg Dialogue Russian-German Public Forum was established by Russian President Vladimir Putin and German Chancellor Gerhard Schroeder in 2001. The event is chaired annually in various German and Russian cities, officially serving as a platform for a bilateral civil society forum. In fact, the annual sessions bring together state authorities and businesspeople from both countries under the guise of enhancing

SOURCE: MID.RU

cooperation between Russian and German societies. This year's edition of the Petersburg Dialogue Russian-German Public Forum kicked off in the German city of Konigswinter close to Bonn on July 18. For the first time since the Russian military intervention in Ukraine, the summit gathered incumbent foreign ministers of the two countries. This marked a slight relaxation in bilateral relations, especially given that Russian and German senior representatives last took part in the forum in 2012. Ahead of the beginning of the conference, German Foreign Minister Heiko Maas stressed the need to enter in a dialogue with Russia. "We will not find answers to urgent international issues without Moscow. We can only achieve lasting peace in Europe if we work together," he was quoted as saying. This came as yet another signal from Germany whose authorities have eventually given up isolating Russia on the international arena, as such attempts had been made after Moscow's 2014 invasion of Ukraine. Before holding face-to-face talks on the sidelines of the event, Maas said he along with his Russian counterpart would discuss the Iran nuclear deal, arms control and the situation in eastern Ukraine. In its politics pursued towards Germany, Russia has long emphasized that sanctions hit both countries while political issues, seen differently by Moscow and Berlin, need to be ignored while addressing economic cooperation. In an interview for the German newspaper Rheinische Post, Lavrov stated that the construction of Nord Stream 2 is proceeding according to plan, with some 60 percent of the pipeline having been laid. Also, the Russian foreign minister lambasted efforts to put the investment to a halt. The Nord Stream 2 energy pipeline project is a symbol of the revival of economic cooperation between Russia and Germany, with both countries having their interest in the shared venture: Russia has an outlet for its raw materials while Germany – for its products, mainly industrial ones.

A few days before the Petersburg Dialogue started in Germany, Berlin said that German exports to Russia recorded a slight increase in 2018 despite the effect of the sanctions and amounted to €25.9 billion, or €130 million, more than in 2017. This is the second consecutive year German exports to Russia have risen. Back in 2012, they hit a record of €38.1 billion while dropped to €35.8 billion only a year later. After the EU imposed economic sanctions targeting exchanges with Russia in July 2014, the value of exports to Russia continued to dwindle, reaching no more than €21.6 billion in 2016. But this negative tendency soon reversed, with Berlin claiming this was due to the improving condition of the Russian economy. But Russia's GDP has little grown over recent years, prompting a threat of either economic stagnation or even decline.

25 July 2019

RUSSIA'S TRANSNEFT AND ROSNEFT EMBROILED AGAIN IN "CRUDE WARS"

A row over the reasons for the Druzhba pipeline contamination crisis gave rise to an open conflict between Russia's biggest crude producer and the country's oil pipeline monopoly. But what was initially seen as nothing more than just leveling mutual accusations has gone beyond a typical business quarrel between two large firms. This might eventually trigger an intervention from the Kremlin, especially given that the dispute between Rosneft and Transneft, once escalated to alarming levels, will pose a threat to the entire Russian oil sector.

Transneft imposed a cap on oil output in Yuganskneftegaz, Rosneft's main upstream unit, halting an amount that corresponds to 0.5 percent of Rosneft's annual production. Such a step could incur even $170 million in losses. Rosneft dropped its July output as Transneft limited an amount of crude accepted, saying the pipelines "were clogged with large flows of surrogate oil." Transneft said that Rosneft did not clearly state the destination for 3.5 million tons of crude as of July 1.

In 2018, Yuganskneftegaz's oil output amounted to 520 million barrels of crude, making the company reach its maximum production level, a tendency that is expected to be maintained in the years to come. Although crude futures for 2019 are said to hit $65–$68, Yuganskneftegaz's output curbed from 180,000-190,000 tons to 110,000-111,000 tons per day. The firm's production began to rise sometime later, attaining the level of 158,000 tons on July 7. Also, Transneft claims that crude from an oilfield administered by Rosneft's RN Yuganskneftegaz is overflowing a pipeline located in the village of Sentyabrskiy in Khanty-Mansi Autonomous Okrug. The spill might have occurred in mid-July while as reported on July 22, crude supplies flooded a territory of over a 1,000 square meters.

On July 8, Transneft slammed Rosneft over propagating a negative image of Russia worldwide with what Sechin's firm has said either publicly or privately, also about the Druzhba pipeline pollution crisis. Rosneft responded to Transneft's claims, calling the firm's stance "subjective" while considering "inadequate" its attitude towards increasing the quality control of oil flows through the pipeline system. In a statement issued, Transneft blamed Rosneft for playing a game, grumbling that the oil firm stands on the same side as Western media outlets, with Deutsche Welle and Reuters at the helm, both of which were believed to have disseminated negative information that under-

SOURCE: TRANSNEFT.RU

mined the good name of the Russian oil sector. Among the examples cited was media coverage of Sechin's business trip to Germany in July, during which Rosneft's CEO paid a visit to refineries owned by his company. Also, Transneft said that no law on main pipelines and oil quality control had been adopted ever since, which was mainly due to the fault of Rosneft and the Federal Antimonopoly Service.

For his part, the Kremlin spokesman referred to the public oil feud between Transneft's Tokarev and Rosneft's Sechin, both of whom belong to Vladimir Putin's inner circle, as a "corporate matter." Given all this, Putin seems now to have a tough nut to crack.

26 July 2019

GAZPROM'S "GOLDEN THURSDAY" ON THE STOCK MARKET

For the second time in less than two months, Gazprom recorded a remarkable leap in value in one trading session. On July 25, the company's shares on the Moscow Stock Exchange increased by 6 percent in a few hours, reaching nearly 300 billion roubles. This time, investors rushed to purchase Gazprom's securities alarmed by speculation that unknown investors could buy a block of shares from subsidiaries of the concern. The buyers considered that the ones planning this purchase had some knowledge that it was worth it. Hence the increase in the share price. As a result, Gazprom became Russia's most expensive company again – the status it lost just a week earlier.

SOURCE: GAZPROM.RU

Before the opening of the stock exchange on Thursday, Gazprom announced that its two subsidiaries intend to list a total of 2.93 percent of Gazprom's shares on the stock exchange. Naturally, following this information, the quotations of the company's securities immediately became cheaper. At the opening of the session, the price fell by 2.8 percent, and then it started to rise sharply. In a few hours, Gazprom's share price went from 208 to almost 229 roubles for one. As a result, after 5 p.m., the company's capitalization exceeded 5.3 trillion roubles (nearly $84 billion). Market participants have apparently come to a conclusion that the shares put up for sale would not reach a wide range of investors, but the buyers chosen beforehand. This may be proven by the fact that the bank responsible for the transaction, Gazprombank, did not warn the market about the planned sale of the block of shares. The investor (or a group of investors) who was supposed to buy a block of shares remains unknown, but it certainly would not be undertaken without any prospect of selling these shares at a profit in the future. This conclusion drummed up the whole market and prompted investors to buy Gazprom's shares on the stock exchange. On Friday, July 26, Gazprom issued a communiqué on the finalization of the announced sale of 2.93 percent of the concern's shares by Gazprom Gerosgaz Holdings B.V., a company registered in the Netherlands, and Rosingaz Limited, a company registered in Cyprus. The name of the buyer was not specified in this information.

This has been the second similar maneuver in recent years consisting in manipulating the value of Gazprom's stock. At the beginning of June, in just one day, the concern's value increased by 17 percent, left Sberbank behind in terms of capitalization, and again became the most expensive Russian company. It was then that the market reacted to the rumors about the planned change in the management of the company, headed by Alexei Miller. This information seemed to be all the more credible as there had been a series of personnel changes in Gazprom's Management Committee before. However, the change of the head of the company did not take place, and the capitalization decreased from 5.6 to 5.3 trillion roubles. Despite this, Gazprom initially remained the most expensive company in Russia (capitalization of Sberbank – 5.2 trillion roubles, Rosneft – 4.5 trillion roubles). Sberbank was again ahead of Gazprom on July 17, when the shares of the gas monopoly dropped by 7 percent following the information on the size of dividends being paid out.

Before the financial crisis of 2007–2008, the market value of Gazprom amounted to $360 billion. The management then announced that it would reach the level of $1 trillion. The breakdown thwarted these ambitious plans, and then (from 2014) the crisis on the oil market added to that. By 2015, Gazprom had lost about $300 billion in its value. The capitalization amounted to only $51 billion. Today it equals over $80 billion. Gazprom's subsidiaries hold 6.64 percent of the concern's shares. Now 2.93 percent of them, worth more than 130 billion roubles, are to be put up for sale. The money is needed to pay out a record-breaking dividend (the significant part of which will be transferred to the state budget) and to implement investments, including costly gas pipeline projects (Nord Stream 2, TurkStream, Power of Siberia). Analysts expect that the remaining shares of the parent company (3.71 percent) will be sold by subsidiaries next year. Even after that, the state will still have control over Gazprom. Through the state-led Federal Agency for State Property Management (Rosimushchestvo) and its majority stake in Rosneftegaz and Rosgazification, the state holds 50.23 percent of Gazprom's shares.

26 July 2019

TRANSNEFT DRAGS ITS FEET OVER PAYING DRUZHBA OIL COMPENSATION

Russia played on time before holding talks on compensating all losses incurred by crude recipients for contaminated oil flows injected into the Druzhba pipeline system. This reaction probably stems from a Russian internal clash between the country's largest oil producer Rosneft and oil pipeline monopoly Transneft. The latter has recently made a unilateral decision to define the maximum compensation for tainted crude supplies. This may prompt long-lasting litigation between buyers, also from Poland and Belarus, and the Russian oil pipeline monopoly. The case is becoming more and more likely to be taken to court.

In a statement issued on July 24, Russian oil pipeline monopoly Transneft, which oversees the Druzhba pipeline, informed that its management board accepted maximum compensation amounts for all losses incurred by oil recipients. Russian pipeline operator set a cap of $15 per barrel on repaying damages for contamination in its network after it had approved to make withdrawals due to noncompliance with the quality of oil flows running through the Druzhba pipeline system. Transneft's management board also said that claimants would have to prove they incurred damage from the contamination.

Vladimir Sizov, Deputy Chairman of the Belarusian state petrochemical concern Belneftekhim, negatively referred to Transneft's decision to determine the maximum compensation stemming from contamination in its network. In an interview for Belarusian news agency Belta, he called Transneft's one-sided declara-

SOURCE: DRUZHBA.TRANSNEFT.RU

tion on the maximum compensation an unacceptable move. Belarussian pipeline operator Gomeltransneft informed that Transneft has not yet confirmed whether it will be possible to compensate for losses by boosting supplies of raw material.

The company was reported to have suggested its Russian partners deliver 59 million tons of crude by the end of 2019, as initially planned under the agreement in force. Belarusian company put forward such a demand in June 2019, both in a written form and during face-to-face talks with both Transneft and Russian Energy Ministry.

Given Minsk's reaction to Transneft's steps, it will follow suit of Polish oil firms, seeking to be granted compensation based on bilateral arrangements. Poland's Orlen earlier submitted the first part of its claims related to tainted oil supplies it had received, saying the second one will tackle the raw material processing. Poland expects to be compensated for Transneft's failure to meet the conditions of the supply deal and all losses incurred as a result of processing specific amounts of tainted crude that the country's largest oil producer Orlen needed to mix with good-quality oil, using its strategic supplies. If to take into account Transneft's stance, solving the compensation problem may be a long-lasting process to be soon taken to court.

SOURCE: NOVATEK.RU

26 July 2019

NOVATEK SEALS ARCTIC LNG 2 DEAL WITH PARTNERS AND SUBCONTRACTOR

Russia's largest private natural gas extractor and liquefied natural gas (LNG) producer Novatek has entrusted a new subcontractor with building gas liquefaction facilities for Arctic LNG 2, its second LNG project to be developed in the Arctic. The Russian company inked a $7.6 billion deal with TechnipFMC, a global leader in subsea, onshore/offshore, and surface projects. Both parties to the agreement managed to sign the contract as Novatek had been given access to additional sources of financing, which resulted from its successful attempt to form a group of companies holding interest in investing in the Arctic LNG 2 project.

Under the deal, TechnipFMC will carry out design engineering and construction work on three floating platforms equipped with natural gas liquefaction lines, with 6 million tons annual capacity each. As reported earlier, Novatek closed a deal to sell shares in its Arctic LNG 2 project to Chinese and Japanese companies. Among them were China-based CNPC and CNOOC Ltd and a consortium of Japanese Mitsui and JOGMEC (Japan Arctic LNG). Novatek CEO Leonid Mikhelson said the final deal allows the company to make the final investment decision and "optimally use cash flow to finance new Novatek projects."

Novatek owns a majority stake of 60 percent in Arctic LNG 2. The Russian LNG company first offered the deal to sell a 10-percent agreement to French Total while in late April it cashed in by selling a 10-percent stake to Chinese CNO-OC and CNODC. The remaining 10 percent was pledged to a Japanese consortium.

As reported by Financial Times back in October 2017, a 30-percent stake package had aroused the interest of Saudi Arabia's state energy giant Saudi Aramco yet the firm delayed its decision whether to purchase it or not. It eventually pulled out of the negotiations after Novatek had offered a 20-percent stake package to Chinese companies, with a 10-percent share sold to each. Also, Singapore's Temasek-owned Pavilion Energy will not get any shares although it had expressed interest in purchasing a package while a South Korean company was also believed to have held interest in investing in the plant.

Arctic LNG 2 is the most significant project ever developed on the Gydan Peninsula. Estimated to produce up to 19.8 million tons, Arctic LNG 2 will be the first of the other projected 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. Novatek keeps bolstering its position as the leader of the domestic LNG sector in Russia's Far North. The gas giant is currently involved in the process of developing several LNG projects based on the vast resources of the Yamal Peninsula and nearby Gydan and the Kara Sea. Also, the Novatek-operated Yamal LNG export facility is fully operational after extending its annual capacity to 16.5 million tons. The Arctic LNG 2 project is currently being developed, with the yearly capacity scheduled to reach 19.8 million tons. It will be based on the hydrocarbon resources of the Utrenneye field. Another large project, yet in its planning stage, is Arctic LNG-3. Most LNG produced in the Far North will be shipped by a new fleet of tankers that will be able to operate under harsh weather conditions in Europe and Asia.

27 July 2019

GAS AND ESPIONAGE: A SCAR ON RUSSIA-AUSTRIA TIES

Austria has issued international arrest warrant for a Russian man named Igor Zaitsev. He is believed to be linked to the case against a retired Austrian military officer who was identified as a suspect who spied for Russia. Austria has ordered an arrest of a man to whom it referred as Russian military intelligence officer. It is likely to remain elusive, and it is also doubtful that the spy scandal will harm Austria's ever-closer cooperation with Russia.

Austrian authorities confirmed on July 25 that they seek to detain Igor Zaitsev, a Russian national suspected of carrying out espionage activities in favor of the Russian military intelligence service. Salzburg prosecutor's office ordered the arrest of a "65-year-old GRU officer," issuing European and international arrest warrant, reads a statement of local police. Zaitsev is suspected of inducing a retired 70-year-old colonel of the Austrian army to carry out an intelligence operation to the detriment of Austria, to reveal state secrets and to deliberately give up military secrets. A retired Austrian colonel Martin M., who was detained in November 2018, cooperated with Russia's military intelligence service since 1987, receiving the total amount of at least 300,000 euro. He spent the last five years before retirement working at the department of structural planning of Austria's Defense Ministry in Vienna. Martin M. handed over classified information on air

SOURCE: KREMLIN.RU

forces, artillery and migration crisis to Zaitsev whose name Austria has recently put on a wanted list.

Revealing a spying scandal should not harm Russia-Austria ties, all the more so that the fact of disclosing a retired Austrian colonel as a spy had not weaken bonds between Moscow and Vienna. Quite the contrary, their partnership is flourishing while Austria has emerged alongside Italy as one of Russia's top allies in the European Union. This refers to both top-level political relations and economic cooperation between the two countries, as exemplified by many former senior Austrian officials landing lucrative posts in Russian companies. In July, Russia's state railway company appointed the former social democrat chancellor of Austria (2016–2017) and the head of Austria's national railway system Christian Kern to its management board. While serving as Austria's chancellor in 2017, he attended the International Economic Forum meeting in St. Petersburg, saying that EU sanctions against Russia cost Austria about 0.3 percent of its GDP. In March 2018, Hans-Jorg Schelling, Kern's compatriot and Austria's long-serving finance minister, was tasked with performing consultancy work for the Nord Stream 2 gas pipeline project.

Austria-Russia cooperation has not suffered even after a political scandal that broke in Vienna, hitting FPÖ, Austria's top party to cooperate with the Kremlin. Leaked footage emerged of Freedom Party leader Heinz-Christian Strache promising political favors to the Russians for party donations during the next election campaign. This, however, did not hamper Moscow's relations with Vienna, especially given that all top Austrian political parties declare themselves as pro-Russian while the gas sector is the core of cooperation between the two countries. Austrian oil and gas company ÖMV is involved in the construction of the Nord Stream 2 energy project. The firm has additionally tightened its cooperation with Gazprom by making investments in Russian gas deposits.

SOURCE: BULGARTRANSGAZ.BG

28 July 2019

GAZPROM'S TURKSTREAM FACES DELAY ON BULGARIAN SECTION

Russia is now playing a strategy of constructing two energy pipelines – Nord Stream 2 in the north and Turkish Stream in the south – to bypass Ukraine while exporting gas supplies to the West. The pipeline was set to become operational after Russian-Ukraine gas transit deal expired in early 2020. But Bulgaria's section of the natural gas pipeline extension into Europe may not kick off as initially scheduled, while Gazprom has recently encountered a major problem in the south, specifically in the Balkans. Construction works of Bulgaria's stretch of the TurkStream pipeline, running between the borders with Turkey and Serbia, have been postponed. The gas pipeline therefore will fail to become operational by 2020, as initially planned. The delay stems from a legal dispute between potential project investors, an effect of weird actions taken by Bulgaria's gas grid operator Bulgartransgaz.

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. Worth a total of €1.43 billion, Bulgaria's leg of the Turkish Stream natural gas pipeline will be 474 km long. As previously stated, the first branch of the pipeline will begin to work at the beginning of 2020, sending gas flows further to Serbia. The branch's annual capacity of 15 billion cubic meters was to be reached by 2020. Including Bulgaria into Gazprom-sponsored project sought to compensate Sofia for all losses incurred after redirecting gas supplies away from Ukraine's territory. Russian-sourced energy is delivered to Bulgaria via the Trans-Balkan pipeline, running from Russia to Turkey through Ukraine and Romania.

The tender for construction works of Bulgaria's stretch of the TurkStream gas pipeline was first announced in February 2019. In April, Bulgatransgaz awarded the contract to a consortium of Saudi Arabia's Arkad Engineering and the Italy-based Arkad-ABB joint venture. Their offer was said to have been the only one to fulfill the condition of maintaining costs below the agreed level. Also, Bulgartransgaz considered too costly a competitive proposal submitted by a GDEB (Gas Development and Expansion in Bulgaria) alliance. Formed by two Italian firms and one Luxembourgish company, the consortium is believed to hold ties to Russia. But a month later, in May, Bulgartransgaz eventually decided to assign the contract to GDEB, claiming the company failed to present all the relevant documents on time.

GDEB, for its part, re-examined its proposal, suggesting a solution that went in line with all financial conditions of the tender. Arkad appealed Bulgartransgaz's decision before Bulgaria's CPC, presenting several formal agreements. Bulgaria's anti-monopoly regulator ruled that Bulgartransgaz should honor its commitments to the Saudi-Italian consortium and sign a contract with it to build a gas pipeline. After the gas pipeline operator implemented the watchdog's ruling, GDEB filed a complaint. The verdict of the anti-monopoly body is subject to the appeal to Bulgaria's two-instance Supreme Administrative Court, and such a legal way was opted for by the GDEB alliance. The Supreme Administrative Court, which is to deliver a verdict in the litigation, set the hearing date for September 24.

This step prevents Bulgaria's leg of the TurkStream pipeline from becoming operational by 2020 while halting its construction works. Such a decision may deal a blow to Sofia, as Bulgartransgaz signed in January 2019 an agreement with Gazprom on shipping gas volumes from Turkey to Serbia from January 2020. Russia may demand financial compensation while gas flows from Russia to Bulgaria are under threat if Moscow fails to seal a deal with Ukraine, and turn the valve off in January 2020.

28 July 2019

MACRON-PUTIN MEETING: RUSSIA GAINS MORE FRIENDS IN EU

Bilateral ties between Paris and Moscow are now getting stronger than ever. The June meeting between French and Russian heads of government will be soon followed by a high-level visit to France by a Russian leader. French President Emmanuel Macron said that he will receive Vladimir Putin for talks at the Fort de Brégançon summer residency on August 19, a few days before hosting the G7 heads of state meeting in the French city of Biarritz. What Macron has suggested has both a serious undertone for French-Russian relations, but may also help put an end to Moscow's isolation on the world stage.

SOURCE: KREMLIN.RU

Macron's initiative may prompt doubled efforts to readmit Russia to the elite club of the world's richest and most developed countries. Russia formally joined the G8 group in 1998, reformatted as G7 in 2014 due to the suspension in Moscow after it had annexed the Crimean Peninsula from Ukraine. The G7 summit will take place on August 24–26. A group of world leaders is set to gather for talks, among whom are those of France, Japan, Germany, the United States, the United Kingdom, Italy Canada, as well as the President of the European Council and the President of the European Commission. For at least a year, Macron has been in favor of letting Russia back into the grouping while asserting that Moscow must first fulfill its obligations under the Minsk agreements. The Kremlin, for its part, hopes to see the very same thing that happened in the Council of Europe, with Western countries inviting Russia back to the grouping, even though Moscow does not meet formal criteria for being readmitted. Among all G7 members, Russia may count on U.S. and Italian leaders, and perhaps also the French one. The very fact that the French leader invited his Russian counterpart to a summer residency shows the friendly character of French-Russian ties, proving how much attention Macron draws to the upcoming meeting.

According to Macron, France, which holds the presidency of the G7 this year, believes that "it is essential that we take this initiative" in order to explore all the forms of cooperation on key topics of destabilization or conflict. Among such issues may be the Ukrainian conflict. This matter was also brought up in the talks between French and Russian prime ministers in late June this year. Following a meeting with his Russian counterpart in the northern French city of Le Havre, French Prime Minister Edouard Philippe called on Medvedev to "take advantage of the new political context in Ukraine" after Volodymyr Zelensky's election as the country's new president. Paris is now believed to exert pressure on the newly elected authorities in Kiev to execute the Minsk agreements that could act to the detriment of Ukraine if entered into force. Medvedev's visit to France sought to renew reciprocal relations between the two states a time of mutual sanctions and frosty ties between Moscow and the West. This comes after the time when intergovernmental meetings at ministerial level were suspended following Moscow's annexation of Crimea from Ukraine and the outbreak of the war being waged by pro-Russian separatists in eastern Ukraine. Russia is open for establishing cooperation with France as such a decision would be equivalent to yet another step towards lifting EU sanctions. So Paris is likely to join some of its EU peers that seek a business-as-usual attitude in their relations with Moscow. Such an endeavor opens up the Kremlin's opportunity to forge bilateral ties with one of the EU's biggest countries – independently of existing Russian-German partnership.

SOURCE: KREMLIN.RU

28 July 2019

WEAKEST LINK OF RUSSIAN ARMED FORCES

Speaking at Russia's Navy Day festivities, Russian President Vladimir Putin said nothing new: he stressed his country's military power and declared further buildup. Attending the main celebrations in St. Petersburg, the Russian leader received the parade of warships. Large-class festivities were also held in other main ports in the country. But this overly optimistic image of Russian naval forces does not correspond with the reality. Russia's navy shares its fate with other types of the state's armed forces. Some units have been upgraded, and their activities show Russia as a maritime super-power. But most of them are furnished with old equipment, portraying the navy as being the least heavily invested arm of the Russian Armed Forces, as exemplified by a series of accidents or fires that have recently afflicted Russian vessels.

The parade was kicked off on the Neva River, in St. Peterburg, known as the maritime capital of Russia. This year's event included 43 warships and submarines. A total of over 4,000 troops from Russia's all main naval formations (Baltic Fleet, Northern Fleet, Pacific Fleet and Caspian Flotilla) took part in the festivities. Among the ships that passed in front of Vladimir Putin and thousands of Russian people were the missile cruiser Marshal Ustinov and the country's two frigates Admiral Gorshkov and Admiral Kasatonov. Also, China and India sent their warships to participate in the event. While observing the parade, Vladimir Putin said his country's navy ensures the security of the country, its national interests and can properly repulse any aggressor. Naturally, his words are exaggerated, with the Russian fleet being incomparable to the U.S. Navy while imbalances of power are even more profound when compared to NATO naval forces. Assisted by Russian Defense Minister and Navy Commander-in-Chief Admiral Nikolai Yevmenov, Vladimir Putin noted that Russia's maritime glory will be even more significant after it builds "a unique in its possibilities fleet, designed for a long time."

Apart from how vague Putin's statement may seem, it is worth emphasizing that the contemporary condition of the Russian navy is far from meeting the president's ambitions. Compared to the country's strategic missile forces or airborne troops, Russia's naval arm stands outs in terms of how promptly it is upgraded and what level of full combat readiness it has achieved. Involvement in the Syrian conflict – while seeking to patrol coastal and other waters – has eventually put the Russian navy at the edge of its operational efficiency. Combined altogether, heightened expectations and mounting political pressure give rise to human error and technical failures. As for the latter, Russia has recently eyed the incident of the deep-water apparatus Losharik or the sinking of the navy's biggest dry dock that served to repair the largest warships. Added to this some long-lasting problems, such as those with multiple damages of Russia's only aircraft carrier, it is hard to believe Putin's words about the fleet's bright future. This is also because the Kremlin and Russian generals find it essential to develop other branches of the country's armed forces, putting the navy aside.

29 July 2019

MOSCOW PROTESTS: PUTIN LISTENED TO SILOVIKI

In just a few days, a local row over the upcoming elections for the Moscow City Duma became what was called Russia's most important political problem. But contrary to what some commentators believe, this recent turmoil does not act to the detriment of the regime. Much indicates that Russia's authorities seem to have sought to escalate the Moscow crisis, or at least such was an intention of those who opt for a tightening course in domestic policy. Russia's siloviki believe that a drop in the regime's popularity and emerging symptoms of a crisis need a rapid and violent reaction to nip all protests in the bud.

United Russia's popularity declined to a low level, prompting the threat of being defeated in Moscow's mayoral elections, scheduled for early September. If, according to a pro-government state-run pollster, the United Russia party can get no more than 22 percent of all votes in the capital, there emerged a danger of independent and opposition candidates taking over the majority in Moscow's 45-seat legislative

SOURCE: KREMLIN.RU

body. From the Kremlin's perspective, such a scenario is unacceptable. When Sergei Sobyanin, the technocratic mayor of Moscow, could not guarantee his victory, even despite a range of tricks, such as making United Russia politicians stand in the elections as independent candidates, the Kremlin's siloviki took matters into their own hands. Nearly 60 people, among who were top opposition politicians, were barred from running in Moscow's mayoral elections, a decision taken due to alleged irregularities in the run-up to local elections. But this was so far-fetched that Russian opposition parties took to the streets in a step that met with broad popular support. A July 20 opposition rally, which the authorities had declared illegal though Sobyanin sought to take moderate actions, drew an estimated crowd of 20,000.

Russia has not eyed such a crowd for years and this is what scared the authorities. Russia has opened a criminal investigation into the protest in Moscow, accusing protestors of preventing electoral commissions from performing their duties. Also, police conducted raids on the apartments of opposition activists and brought them in for questioning. When Aleksei Navalny delivered an ultimatum to the authorities, calling for registering opposition candidates for the poll and threatening to rally on July 27, he was handed a 30-day sentence for calling people to attend an illegal gathering. The July 27 protest was violently dispersed by police and Rosgvardia, members of which purposefully exaggerated while using aggressive measures against protestors. Moscow police detained more than 1,300 people following demonstrations, which was a record number.

The authorities' response to what happened in Moscow sought to show that the Kremlin has no intention to tolerate such behaviors. Investigators probe into the alleged financing from abroad. The case also involves the FSB structures that deal with combatting opposition forces. Interestingly, two days earlier, Russia's General Prosecutor's Office had banned the Atlantic Council think tank. "It has been established that the activities of this organization present a threat to the fundamentals of the constitutional order and security of the Russian Federation," the prosecutor general's office said in a statement. Investigators are likely to link "a Maidan attempt," as the regime referred to Moscow's popular unrest, to the Atlantic Council. Much will depend on how forceful the Kremlin's policy will be. After a series of recent failures and compromising mishaps, Russia's Federal Security Service surely will make its best to rehabilitate in Putin's eyes, showing that his siloviki serve as his only genuine support. This is why they keep convincing the president that he may become a victim of various intrigues and "color revolutions". Under this logic, removing opposition activists from Moscow's electoral list is nothing else that an attempt to thwart a coup d'état, with "U.S. agent" Navalny as a top plotter.

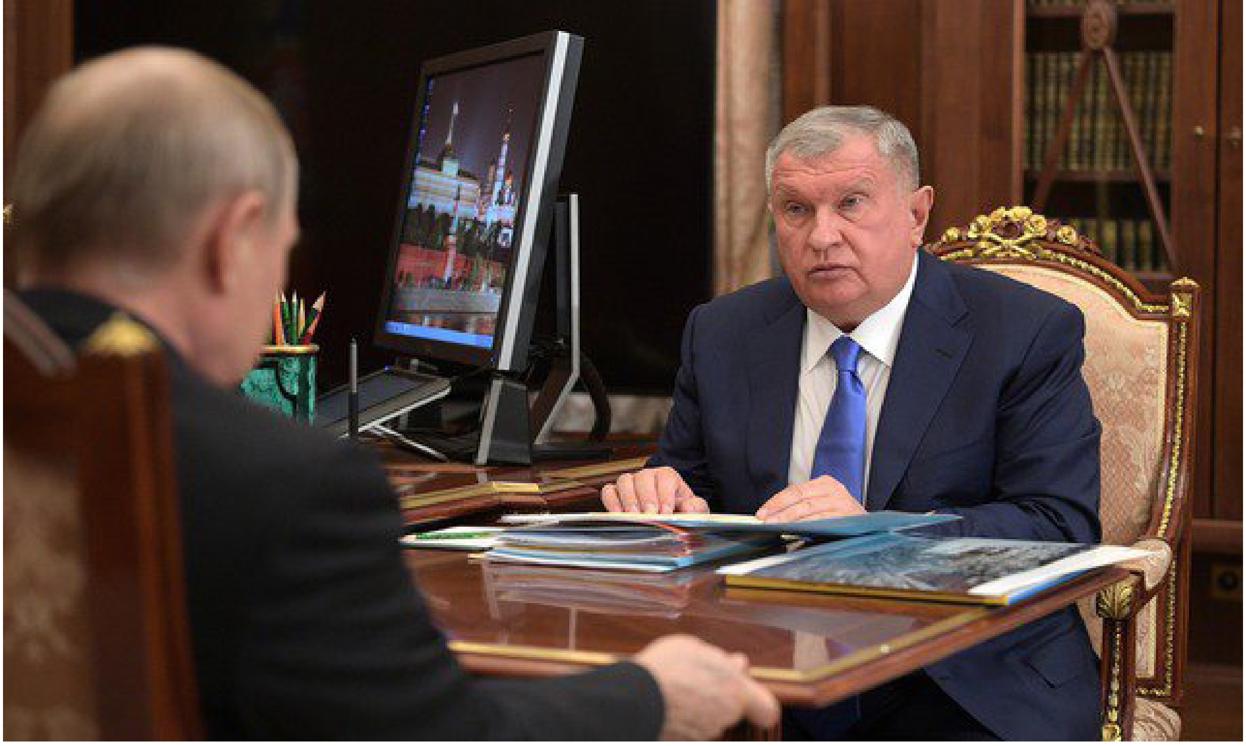
31 July 2019

SECHIN'S TAX PRIVILEGES AT RISK: IS PUTIN CHANGING HIS MIND?

Russian most prominent state-run oil firm Rosneft will fail to get the government's generous multimillion tax break. The government's May decision will not be take effect until at least the end of the year. Putin also ordered an unexpected moratorium on any new state support for developing domestic oilfields. The moratorium will remain in effect until the end of 2019. Putin's latest decision has called into question Igor Sechin's new oil projects that so far enjoyed substantial support from the state. The Kremlin's move is surprising because until now, Putin expected that the government fulfill almost all of Sechin's tax demands. But at this stage, it is not yet known whether this prompts the weakening position of Rosneft's CEO or whether the Kremlin's efforts to freeze its aid to the oil giant deems as a part of a large conundrum, both political and financial.

In May 2019, the Russian government approved Rosneft's February request for tax deductions for developing Priobsky in Western Siberia, its biggest oilfield. What argument did it offer? Rosneft sought deductions for offsetting the extra expense of pumping oil from an aging field that is experiencing depletion. Russian Finance Ministry opposed the idea, but the break was granted, a decision that must have been taken with Putin's consent. The oilfield's output is growing, and it does not need additional support, the ministry declared. A meeting on May 27 at Prime Minister Dmitry Medvedev's office revealed that the draft regulation on awarding tax deductions for Rosneft's Priobsky oilfield was to be adopted by October 1, 2019, shortly followed by its entry into force. Also, Rosneft expected that the tax break apply retroactively, to the period since the beginning of 2019. In total, tax incentives were believed to amount to 46 billion roubles ($725 million) over ten years. Sechin's firm managed to secure tax benefits on the mineral extraction tax (MET, or NDPI in Russian) for its Samotlor oilfield, worth 35 billion roubles over ten years.

In a letter addressed to Deputy Finance Minister Ilya Trunin, Rosneft's first vice-president Pavel Fedorov explained the need for diminishing tax rates imposed on Priobsky's oil output with offsetting all losses that arose from Russia's compliance to the OPEC+ deal. In doing so, Federov was reported to have recalled Putin's words; in December 2018, the Russian leader allegedly backed an idea to compensate oil companies for any direct losses that resulted from a drop in crude output, as stipulated



SOURCE: KREMLIN.RU

by the OPEC+ agreement. Rosneft is seeking further tax reliefs, saying that since late 2017 it has produced 22 million tons of oil less than initially planned, while curbing output and sales failed to compensate for higher oil prices that remain at a low level due to an increase in producing U.S.-sourced shale gas.

Russian Finance Ministry, for its part, stood out against treating oil companies, with Sechin's excessively demanding company at the helm. Ministry officials said this would cost the federal budget over $7 billion over ten years. Interestingly, the Kremlin document, dated July 20, ordered to freeze further tax breaks for Sechin's company and instructed the energy and finance ministries to outline the economic justifications for providing Rosneft with tax breaks for its oil projects. Earlier, this issue was of minor importance for Putin who, at the request of Sechin, had almost always ordered the government to make concessions to the benefit of Rosneft.

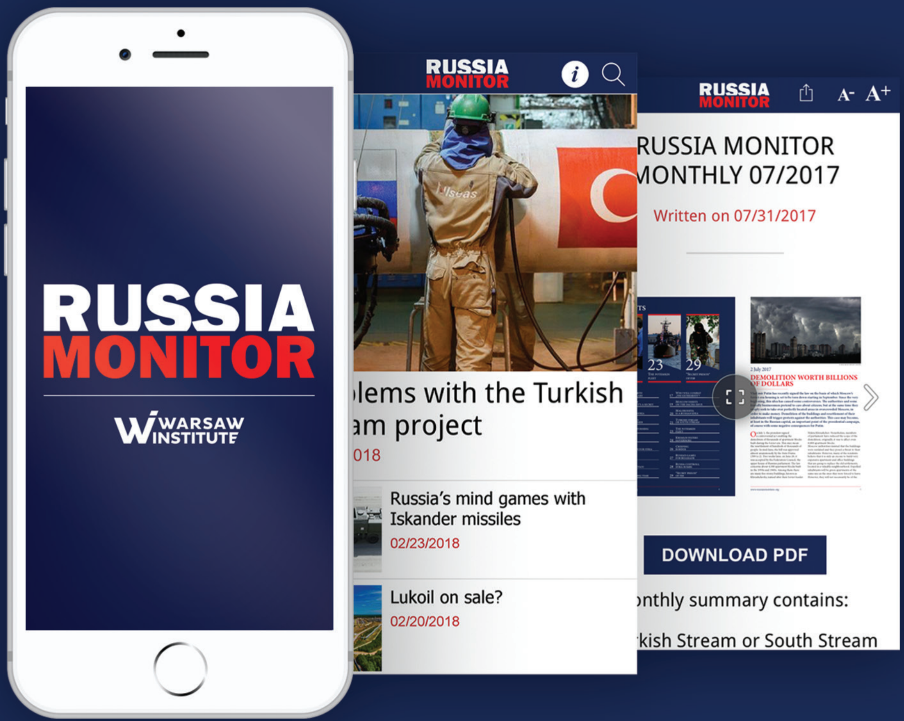
Little is known about how the matter of Sechin's probably greatest demand ever presented will eventually be tackled in the context of diminishing his firm's financial commitments to the state. It was not a long time ago when Sechin sent a letter to Putin, in which he asked for backing the draft federation law on a special tax regime for investors that develop their projects in the Arctic, a concept elaborated by the Ministry for Development of the Russian Far East and Arctic. Sechin reportedly proposed establishing the Vostok Oil company, a business body in charge of the first stage of developing four oilfields of "the Arctic cluster," of which three are held by Rosneft. The project provides for constructing 5,500 kilometers of pipeline, sea terminals with annual handling capacities of up to 100 million tons, airports, power lines, and other infrastructure facilities. Addressing Putin in the letter, Sechin estimated total costs to surpass 5 trillion roubles ($79 billion), but an independent auditor said it could cost even 8.5 trillion roubles ($134 billion). Facing such massive investments, Rosneft's CEO asked for further tax reliefs, including a 30-year exemption from the mineral extraction tax for new oil and gas deposits while granting reliefs that corresponds to the total investment to the existing fields. Last but not least, Sechin suggested waiving the mineral extraction tax, real estate tax, and land tax while discounting income tax from 20 to 7 percent.

Earlier, Putin had given the green light to Rosneft's tax deductions to let the company develop its costly Arctic projects. It is not known how the moratorium will affect the further fate of the request to reap state funds for drilling in the Arctic. The region's development stands out as one of Putin's flagship projects, with gigantic investments in extraction and transport infrastructure as the project's guarantee of success.

download mobile application

Available on the App Store

Get it on Google play



Russia Monitor is a review of the most important events relating to Russian security. Warsaw Institute experts monitor and analyze the activities of the Kremlin and its subordinate services to anticipate the short-term and long-term consequences not only for Russia, but also for neighboring countries and the Western world. Therefore, the subjects of our analyses are both events and phenomena closely related to the internal situation in Russia, as well as its foreign policy. We are interested in Russian politics behind the scenes, changes in security forces and special forces, and the the driving factors behind offensive activities, including military operations. Our analytical experience, including the ability to form in-depth assessments and forecasts, is here to serve you. Our experts, who have been monitoring the situation in Russia for years, provide an unmatched quality and depth of analysis. We want Russia Monitor to help politicians and businessmen in making decisions, while bringing the attention of all concerned to the reality of Putin's Russia.

WARSAW INSTITUTE

www.WarsawInstitute.org

General information

The Warsaw Institute is the first conservative geopolitical think tank in Poland. The main areas of our interest are: geopolitics, international relations, energy security, defence, history, culture and any other issues crucial for Poland and East-Central Europe. We are proudly supporting the 3 Seas Initiative and transatlantic relations.

The Warsaw Institute develops and provides innovative and practical recommendations based on the wide experience of its experts (over 40 cooperating experts). The Warsaw Institute helps to improve public policy and decision-making through research and analysis. Our activities are dedicated to government organizations and agencies as well as non-governmental organizations, think tanks, research institutes, academic communities, opinion-forming media and experts.

The Warsaw Institute is an independent, non-profit, nonpartisan organization supported by contributions from individuals.

Goals and objectives

- strengthening the position of the Polish state by preparing and providing its partners with analyses and studies concerning economic policy, international relations, security policy, the use of soft power and more
- international cooperation of states, societies and NGOs
- supporting the development of democracy, economy and entrepreneurship
- energy security and military security
- cultivating and promoting Poland's national and state traditions and developing national, civic and cultural awareness

The Warsaw Institute Review

Free Polish quarterly, prepared essentially for English-speaking readers around the world. Main goal is to present a broad spectrum of topics concerning Poland, a leading East-Central European country, in the form of analytical articles on political, legal, economic, social, historical and institutional issues.

Subscribe to the printed edition of The Warsaw Institute Review on our website.

Programs

Romania Monitor - the first platform that would bring together think tanks and analysts from both countries, interested in geopolitics, energy security and military cooperation between Poland and Romania.

ROMANIA MONITOR

Disinformation Program - this program involve carrying out professional analyses on the identification and creation of methods for combating organised disinformation and training against disinformation threats.

DISINFORMATION

Ukraine Monitor - Warsaw Institute experts monitor and analyse information on Ukrainian politics and business with the view to anticipating the main medium- and long-term changes that can occur in a country playing a key role for many stakeholders.

UKRAÏNE MONITOR

Baltic Rim Monitor - this program offers the analysis of the newest events concerning Baltic basin countries.

WARSAW INSTITUTE SPECIAL REPORTS

RUSSIA MONITOR

Review of the most important events relating to Russian security. Warsaw Institute experts monitor and analyze activities of the Kremlin and its subordinate services to anticipate their short-term and long-term consequences, particularly for neighboring countries and the Western world.

download mobile application

Available on the App Store

Get it on Google play

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