Does the diarchy have a unified foreign policy?

As one year closed from the onset of a shattering global economic crisis, it suddenly became clear that the question of the division of responsibilities in the Putin-Medvedev diarchy perhaps had the most relevance not in the domestic arena, where the prime minister’s primary role in economic management was clear, but rather in the international sphere, where the consequences of potential deals on nuclear weapons programs and missile shipments or missile defense systems and sanctions could precipitate a split response from Russia’s ruling duo.

With the traditional United Nations General Assembly meeting in New York and the scheduled G-20 Summit in Pittsburgh, September was slated to be a busy foreign policy month. Clearly, the Putin and Medvedev teams would prepare for either a unified approach from Russia’s two heads, or each side would calculate the benefits of dissent, however nuanced – as one apparently prepares to take back the presidential regalia and the other weighs the cost of refusing to rollover.

Clearly, September would require elucidation of Russia’s policy regarding Iran. Putin set up the framework of Russian policy in his remarks to the Valdai Club, when he warned that “any use of force, delivering any kind of strike, won’t help, won’t solve the problem. On the contrary, it will hurt the entire region. As for sanctions, they won’t bring the desired effect.” (1)

Whether or not Putin had intended to apprise the Valdai conferees of an agreed policy approach towards Iran, events in September may have sparked a
reconsideration. Notably, the US administration’s announcement of its suspension of plans for the missile defense system based in Eastern Europe clearly required a Russian response.

Medvedev found the move, “responsible,” and found in it the basis for greater cooperation: "We together will work out effective measures regarding the risks of missile proliferation -- measures, which will take into consideration the interests and concerns of all sides and guarantee equal security to all states in Europe." (2)

Putin also praised the US decision, but urged more changes to US policy: "The latest decisions by President Obama to cancel plans to build the third positioning region of the missile defense system in Europe inspires hope and I do anticipate that this correct and brave decision will be followed by others," Putin said. (3) Putin suggested the US should move forward on Russian WTO ascension, as part of an effort to remove "all restrictions on cooperation with Russia." (4)

What should have been a concurrent announcement of the US administration’s new missile defense regime (meant to supersede the system being abandoned) was delayed in the news cycle long enough to spark debate over a quid pro quo with Russia, presumably over some form of sanctions on Iran. Clearly, Putin responded as if in the midst of a policy barter—scrapping the missile defense system is good, but what more can we get for any cooperation?

Putin’s reactions were subsumed fairly quickly in the next set of revelations over Iran’s secret nuclear processing facility. This time, Medvedev was alone in the foreign policy spotlight for his trips to the United Nations and then the G-20 Summit.

During Medvedev’s visit in New York, his foreign policy adviser, Sergei Prikhodko, while noting that the US and Russia still have "differences on regional
and other issues,” characterized the Medvedev administration’s attitude toward the direction US-Russian relations were moving: “We are satisfied that we are developing a very intensive and open discussion of the entire agenda of Russian-U.S. relations covering not only purely bilateral relations but also strategic stability matters.” (5)

While developments have seemed to drive policy this past month, particularly with regard to Iran, some issues have a strategic importance that eventually will out – Russian foreign policy expert Sergei Karaganov recently concluded: “The potential nuclear capabilities of Iran will have to be contained in order to convince the country’s future leaders not to change their relatively constructive policy toward Russia and not to embark on risky ventures.” (6)

While Putin and Medvedev seemed to have little time to consult or to work out a unified approach to foreign policy regarding Iran in advance of recent developments, the similarities in their responses might be more notable than the differences. It certainly raises the question of whether a foreign policy doctrine or council exists to assist the tandem to reconcile their actions and remarks, or if, perhaps, Medvedev’s period of apprenticeship (as presumptive heir) was long enough to ingrain Putin’s approach to foreign relations on the policy choices of his successor.

Changes to the dynamic of the Russian diarchy recently suggest that Putin and Medvedev are developing a more competitive relationship. Remarks by Putin (also to the Valdai Club) on his possible return to the Kremlin in 2012 appeared to take the wind out of the president’s sail, mid-term. Medvedev also has been starkly critical of the state of the political system he inherited. It seems likely that coming months will deliver a series of contradictions and clashes from both the principal diarchists, as well as their entourages.
When contradictions arise, Russia's diarchy presents additional dilemmas for its foreign partners as they attempt to ascertain who makes foreign policy in Russia, and whether or not that same individual is the one who shows up at the international events.

Source Notes:
(3) “Russia's Putin hails U.S. shield move, calls for more,” By Gleb Bryanski, Reuters, 18 Sep 09 via Johnson’s Russia List (JRL), 2009-#172, 18 Sep 09. (4) Ibid.
(5) “Moscow is satisfied with the way Russian-U.S. Relations are…,” Interfax News Agency, 24 Sep 09, 6:39 PM MSK; Russia & CIS Diplomatic Panorama via Lexis-Nexis Academic.

Russian Federation: Domestic Issues and Legislative Branch
By Rose Monacelli

Swine flu cover-up in Russia?
Last Wednesday, the World Heath Organization (WHO) confirmed what Russian authorities had been denying for days when it reported the country’s first death
from swine flu. Until that time Russia had been one of only a few nations not to certify a death from the A/ H1N1 virus, commonly known as swine flu or H1N1. Since the virus first surfaced last spring, WHO has reported that there have been 308,660 swine flu cases worldwide, including 4,165 fatalities. (1) WHO’s report came after days of furious denials from Russian authorities, who maintain that Russia has only 381 officially registered cases of the flu, and no fatalities. (2) Later that day, however, WHO inexplicably revised its list of countries where swine flu fatalities have occurred, dropping Russia from the tally and apologizing for the mistake of “[basing] its conclusions on information available in the media.” (3)

The WHO’s inability to issue straightforward information could not have come at a more significant time. As summer becomes fall and fears of a global pandemic rise again, the Russian media has refocused its attention on the question of whether or not the country’s population will continue to be able to avoid the illness that spread rapidly last spring in many of the world’s population centers, including in the United States, Europe, and Central and Western Asia. Other factors, such as recent statements made by scientist Dmitry Lavrov, and the government’s reaction to his remarks also have helped to push this issue into the national and international spotlight.

In a televised interview Lavrov, a leading Russian virologist at Moscow’s Institute of Virology, stopped just short of accusing the government of covering up the country’s first H1N1 casualty. He was clear, however, that lab tests conducted on a sample from the victim, who passed away on August 19, indicated that the woman’s cause of death was indeed swine flu. Reportedly, the victim contracted the disease on a trip to Bulgaria, (4) where over 45 cases of the H1N1 have been reported since August 2009. (5) This was not the first incident of Russian citizens contracting H1N1 after spending time in Bulgaria; just in the last month a group of children from Russia’s Vladimirovska district tested positive for the virus after returning from a children’s camp in Burgas. (6)
Lavrov claimed that the woman’s death, coupled with the authorities’ willingness to explain it away were indicative of the health ministry’s failure to comprehend the seriousness of the situation. He further claimed that there had already been “tens of thousands” of cases of swine flu in Russia instead of the official 381. (7) In response, the government sprang into action, condemning Lavrov, and issuing a statement through Deputy Health and Social Development Minister Veronika Skvortsova, who announced that not only was the official cause of death acute pneumonia, exacerbated by various preexisting health conditions, such as a congenital heart defect, diabetes, (8) and kidney disease, (9) but that “not a single lethal case of the A/H1N1 virus has been registered in Russia.” (10) Skvortsova also attacked the Institute of Virology for allowing Lavrov to conduct the tests, which she claimed did not find any evidence of the A/H1N1 virus, despite (or because of) the fact that the lab is bankrolled by the government and has long been considered a world leader in the field of disease-related research. (11) Russia’s public health chief Gennady Onischenko also jumped to the government’s defense, calling Lavrov an “informational terrorist.” A detailed report indicating pneumonia as the official cause of death was published soon after by the Rossiyskaya gazeta, the government’s newspaper. (12)

The government’s timely, coordinated, and rather forceful response raises questions about why it would go to such lengths to refute the doctor’s story. Despite his pedigree, Lavrov was hardly a household name, and he has had little influence over the way that the government has handled the impending pandemic up to now. Several factors, however, make this issue more pressing with each passing day. First, the onset of cooler weather and the start of a new school year have exponentially raised the risk that H1N1 will see a worldwide resurgence. Even though flu season officially has not begun, governments around the world are reporting growing numbers of people in the hospital with severe flu-like symptoms. One school in Russia’s Murmansk region was forced to close and its students and their parents and teachers were quarantined after
seventeen third graders contracted the virus, following the return of one pupil from holiday in Turkey. The government had called on all schools to test their students before the start of the school year; it discovered later that 484 of them failed to comply. A Health Ministry spokesperson blamed the “irresponsible attitude” of school managers and medical staffs for this failure, as well as regional health authorities. (13)

This has become a personal issue for some in the government, especially Onischenko, a prominent member of the government commission to prevent the spread of swine flu in the country. The commission was formed last April in response to the initial outbreak of the disease in Mexico. Although its official head was First Deputy Prime Minister Viktor Zubkov, Onischenko is considered the architect of the plan, which focuses on “limiting exposure, measuring the temperatures of airline passengers coming from infected countries, and quarantining the sick.” (14) He also advocated banning all meat imports (even though there is no connection between pork and swine flu) and urged people not to travel to infected countries with infected populations. (15) Since spring, Russia’s continued ability to prevent the spread of H1N1 and its official status as one of the few remaining countries in the world without a single swine flu fatality has become a point of pride for the government, and especially for Onischenko, who was also vocal about his organization’s ability to treat the disease if it did enter the country. In light of these factors, government officials naturally would respond aggressively to Lavrov’s claims that the Health Ministry had failed to stop the disease from entering Russia and was attempting to downplay the scale of the outbreak.

Only time will prove the accuracy of Dr. Lavrov’s statements, but their impact continues to grow. Despite increasing outside pressure since his televised interview, Lavrov has not changed his story, and other health professionals slowly have begun to rally behind it. (16) The possibility that Lavrov is correct, and that the disease is much more virulent and pervasive than people were led to
believe, has fostered doubt over the national government's ability to handle a pandemic, especially as the number of people infected continues to climb. On Monday, Onischenko reported that 76 people had contracted the disease in the past week, raising the official number to 457. (17)

Russia’s citizens understandably are concerned about the likelihood of a similar new wave of outbreaks within the country’s borders. This anxiety is exacerbated by failures on the part of regional and local governments around the country. The best plan in the world will fall short if those charged with carrying it out fail to do so. The next test of this kind will be the effectiveness of the government’s in-progress H1N1 vaccine. The government budgeted $130 million for scientists tasked with developing an effective swine flu vaccine. Clinical testing began earlier this month in anticipation of a widespread release by the end of this year. (18) If the vaccine is effective and people are willing to get vaccinated, the government will be able to vaccinate 30 percent of its population. (19)

Source Notes:


(7) “Swine Flu: WHO, first certified death in Russia,” Ibid.

(8) “Russia removed from WHO swine flu death list,” Ibid.


(10) “Russia removed from WHO swine flu death list,” Ibid.

(11) Ibid.

(12) “Doctor Says Russia Understating Swine-Flu Cases.” Ibid.


(14) “Doctor Says Russia Understating Swine-Flu Cases.” Ibid.


(16) “Doctor Says Russia Understating Swine-Flu Cases.” Ibid.


(19) “Doctor Says Russia Understating Swine-Flu Cases.” Ibid.
Russian Federation: Security Services
By Fabian Adami

Russia’s changing borders and foreign relations: De facto situations
Since the fall of 2008, Russia has been taking incremental steps to solidify the
territorial changes resulting from the Georgian conflict. In April of this year, the
Kremlin signed agreements with the putatively independent South Ossetian and
Abkhazian governments under which the Russian Federation’s Border Guard
Service would protect these states’ borders until such time as their own national
services are ready to take on the task. The agreements provide for the training in
Russia of indigenous personnel, as well as for the construction of some 20
“modern” surveillance facilities in the secessionist areas. Six weeks ago, the
Border Guard Service announced that it had purchased six light-utility
helicopters, which would be used in the country’s southern mountainous regions,
raising the disconcerting memory from the mid-1990s of an “Abkhaz air-force.”
(1) The attempt to create irrefutable facts on the ground has not slackened in the
last four weeks.

On 28th August, Yevgeni Inchin, Deputy Head of the Border Guard Service
announced that Coast Guard vessels would be deployed to the Black Sea, in
order to prevent Georgia from carrying out “acts of piracy” in the Abkhaz
“republic’s territorial waters.” (2) The decision to deploy to the Black Sea
apparently was taken because Georgia (correctly under international law)
regards Abkhazia as part of its sovereign territory and has “detained” 23 ships off
the latter’s coast since the beginning of the year. (3) The first patrol boat arrived
on 20 September with nine more to follow (4). The “Abkhaz Border Service” also
will be outfitted with its own patrol boats eventually. (5) The deployment was
backed by a harsh warning from Russia’s Foreign Ministry to Tbilisi, claiming that
Georgian actions constituted a violation of “international navigation laws,” and
warning that further seizures of cargo ships could lead to “armed incidents.” (6) Russian Coast Guard vessels are authorized to search, seize and detain any Georgian “intruder” ships that cross Abkhaz boundaries. (7)

In addition to these (what might be termed “physical”) steps, Moscow has taken a very clear symbolic step to support its perception of reality in the Caucasus: according to a Foreign Ministry spokesman, Sergei Lavrov is to visit Abkhazia on 2nd and 3rd October. The purpose of his visit is to “discuss” further “ways of developing friendly relations between our countries,” on a multitude of “bilateral” levels. (8) That apart from Russia only Venezuela and Nicaragua have recognized Abkhazia does not seem to bother the Kremlin. Moscow clearly believes that no steps can or will be taken by the international community to counter its flagrant violations of international law, especially if presented with an irreversible status quo. Thus far, this line of thinking has been proven correct.

**Politkovskaya and Estemirova**

Three weeks ago, Russia’s Supreme Court heard an appeal from Anna Politkovskaya’s family, requesting that any new trial be suspended until a new investigation was carried out to capture the triggerman as well as locate the assassination’s mastermind. The panel ruled in the family’s favor, returning the case to the prosecutor and merging the various separate investigations into one. (9) Prosecutors have reacted to the decision with apparent pleasure, promising in public that their investigation will “improve a lot,” and that “good results” will be seen. (10) It hardly needs to be restated that satisfactory results for the Politkovskaya family constitute something entirely different than they do for the state.

Meanwhile, in what would seem to be a related case, allegations have surfaced of pressure being exerted on investigators to issue the “correct” findings in the Natalia Estemirova case, while a key witness has been forced to flee Chechnya for fear of her life. Memorial, Estemirova’s organization, claims that said pressure
is being applied by “local authorities,” who lack the “political will” to bring the killers to justice. (11) That President Ramzan Kadyrov does not want the assassins found is an understatement at best. One wonders therefore what Memorial hopes to achieve by going public with such an obvious allegation: negative publicity is hardly likely to endear the organization to the Chechen leadership.

**Latynina on 1999 bombings**

Since Aleksandr Litvinenko’s defection to Britain in 2001, and the publication of his book “Blowing Up Russia: The Secret Plot to Bring Back KGB Terror” in 2007, it has been hotly debated whether or not the apartment bombings of 1999 were part of an FSB false-flag operation designed to help Vladimir Putin’s electoral chances, in addition to providing an excuse for the launching of the 2nd Chechen war.

Now, opponents of the “FSB did it” theory have another voice of support. On 19 September, Yuliya Latynina, normally an outspoken Putin critic, came out in support of the official (Chechen terror) theory during her radio show, claiming that while she did not trust the FSB, the false-flag theory was nothing more than a deliberate “manipulation” on the part of “Berezovsky’s people.” (12) Latynina based her argument on the fact that Berezovsky was one of the people who brought Vladimir Putin to the Presidency, painting Berezovsky as acting purely out of a desire for revenge, to punish Putin for his eventual dismissal. (13)

Several observations can be made about Latynina’s arguments. First, they demonstrate that in hindsight, it was a mistake for Litvinenko to take financial backing for his book from the oligarch. Second and more importantly, they provide evidence of just how damaging Boris Berezovsky is to the opposition’s cause overall: any theory aired by him from his London asylum is easily dismissed, largely because he has become ever more shrill and bombastic in his utterings. On the other hand, Latynina’s argument falls down in light of the fact
that Litvinenko was granted defector status by British Intelligence partly based on his information about the bombings, and in light of the fact that Mikhail Trepashkin was imprisoned in Russia between 2003 and 2007, due to his own investigation into the atrocities. Why did the Secret Services go to the trouble of silencing Litvinenko and Trepashkin if their theories could be easily painted as hokum?

Source Notes:
(1) See The ISCIP Analyst, Volume XV, Number 15 (20 Aug 09).
(2) “Russian Border Guards To Help Protect Ships Heading For Abkhazia from Georgian Attacks,” Interfax-AVN Online, 31 Aug 09; OSC Transcribed Text via World News Connection.
(3) “Russia To Stop Georgian Border Guards from Detaining Ships in ‘Abkhaz Waters,’ RIA Novosti, 28 Aug 09; OSC Translated Text via World News Connection.
(4) “Russia to Use Up to 10 Coast Patrol Boats in Georgia’s Abkhazia,” Interfax, 20 Sep 09; OSC Translated Excerpt via World News Connection.
(6) “Georgian Detention of Ships Offshore Abkhazia May Cause Incidents,” Interfax, 3 Sep 09; OSC Transcribed Text via World News Connection.
(7) “Russian Border Guards to Detain Georgian Ships off Abkhaz Coast,” Interfax, 15 Sep 09; BBC Monitoring via Lexis-Nexis.
(8) “Russian FM To Visit Abkhazia,” ITAR-TASS, 25 Sep 09; OSC Transcribed Text via World News Connection.
(9) See The ISCIP Analyst, Volume XVI, Number 1 Part 1 (17 Sep 09).
(10) “Investigator in Murdered Russian Journalist Case Promises “Good Results” Soon,” Interfax News Agency, Moscow, in Russian, 15 Sept 09; BBC Monitoring via Lexis-Nexis.
Mixed Russian reaction to US shift on missile defense policy

On September 17, the United States President unveiled a new strategy to strengthen America’s ballistic missile defenses. Based on new intelligence assessments regarding Iran’s missile and latent nuclear weapons program and an assessment of proven United States technologies, President Obama approved a four-phase, adaptable sea and land based missile defense plan for Europe. (1) The announcement signaled the end to previous United States plans to build both a radar facility in the Czech Republic and a ground based interceptor missile site in Poland. (2)

The planned Czech and Polish facilities had created major Russian expressions of concern. In 2008, then President Putin had characterized both facilities as part of “a new arms race” initiated by the United States. (3) In his recent announcement on the new missile defense strategy, President Obama characterized Russia’s previous concerns about the old missile defense program as “entirely unfounded” and welcomed the “Russians’ cooperation to bring its missile defense capabilities into a broader defense of our common strategic interests.” (4) With respect to the change in policy, Secretary of State Hillary Clinton stated the “decision was not about Russia. It was about Iran and the threat that its ballistic missile program poses.” (5) However, National Security
Advisor James Jones “conceded the possibility of an ‘ancillary benefit’ in overall U.S.-Russian relations.” (6)

Russian President Medvedev responded to the United States announcement as “a positive signal” and stated, “our American partners are ready, as a minimum, to listen to the arguments and position of the Russian side.” (7) He further stated that the United States and Russia would “jointly develop effective measures against risks of missile proliferation.” (8) Prime Minister Putin said the new policy “has positive implications and I very much hope that this very right and brave decision will be followed by others.”(9) Although senior Russian leaders have responded positively toward the United States’ new missile defense policy, the Russian Military response has been less enthusiastic.

On September 19, Russian Deputy Defense Minister Popovkin stated, “Russia will give up its plans to deploy Iskander operational tactical missiles in the Kaliningrad Region in response to the U.S. decision not to deploy missile defense systems in Eastern Europe.” (10) The planned Iskander deployment was an asymmetric response to the old missile defense-basing plan in Poland and the Czech Republic. However, two days later, Russia’s Chief of the General Staff Makarov reversed course when he told reporters “Russia has not yet taken the decision to cancel its plan to deploy the Iskander missile system in Europe.” (11) When asked about the new United States missile defense plan he stated, “To everything that is related to missile defense our attitude is negative.” (12)

General Makarov based his “negative” attitude on three issues with respect to the United States’ new missile defense policy. First, the United States has not cancelled its ballistic missile defense plan for Europe; rather President Obama has moved forward to strengthen it. (13) The four-phase approach provides an initial capability against Iran’s short to medium range missiles by 2011. (14) The previous system would not have reached initial operating capability until 2017 at the earliest. (15) In addition, the new plan does not contradict the stated
intention of the US to obtain an intercontinental ballistic missile intercept capability, but includes the capability during the fourth phase of the plan, scheduled for 2020. (16)

Second, the United States is exploring the possibility of deploying an X-Band early warning radar in the Caucasus as part of its network of sea and land based early warning sensors. (17) The X-Band radar is a unidirectional system. As such, its orientation in the Caucasus, according to United States officials, would be toward the missile threat in Iran and should not pose a threat to Russia. (18) The old system planned for the Czech Republic was an omnidirectional radar capable of looking deep into Russia. (19) Although the new location of the radar should not provide the United States with early warning on Russian ICBM activity, Russia has expressed concern over this perceived US encroachment into its near abroad.

Finally, General Makarov desires a “jointly” developed “global missile defense system,” rather than a purely American system. (20) Despite the General’s “negative” attitude on missile defense, several senior United States and NATO officials have made overtures toward Russia regarding the development of a combined Russian, NATO and United States missile defense architecture. Following President Obama’s announcement, Secretary Gates indicated that the United States was “very interested” in collaborating with the Russian military on missile defense. (21) Secretary Gates mentioned that one possibility for cooperation and integration is the Armavir radar in the southern part of Russia, which could give greater coverage of Iranian missile launches. (22) In addition, NATO’s Secretary-General Rasmussen stated, “We should explore the potential for linking the U.S., NATO and Russia missile-defense systems at an appropriate time.” (23)

Despite mixed reactions by Russian military leaders toward the United States’ new missile defense plan, opportunities to collaborate in the future are possible.
Recent offers by the US and NATO to cooperate with Russia have created the potential for ongoing dialog and agreement on cooperative missile defense. However, it remains to be seen how President Medvedev and the Russian military will resolve their differences to embrace this new opportunity.

Source Notes:
(2) Remarks by the President, Ibid.
(4) Remarks by the President, Ibid.
(7) Russia Will Be More Attentive to U.S. Concerns After Changes in U.S. Missile Plans, Interfax, 18 Sep 09; OSCE Translated Excerpt via World News Connection.
(8) Medvedev Hails U.S. Move to Shelve Missile Shield Plan, Interfax, 18 Sep 09; OSCE Translated Excerpt via World News Connection.
(10) Iskanders not to be Deployed in Kaliningrad Reg In Response, ITAR-TASS, 19 Sep 09; OSCE Translated Excerpt via World News Connection.
(11) No Decision on Iskander Missiles in Kaliningrad Region Taken Yet – Russian CGS, Interfax, 21 Sep 09; OSCE Translated Excerpt via World News Connection.
(12) Russia is Opposed to US Plans for New Missile Defense in Caucasus – CGS, Interfax, 21 Sep 09; OSCE Translated Excerpt via World News Connection.

(13) No Decision on Iskander, Ibid; Remarks by the President, Ibid.


(16) Fact Sheet, 17 Sep 09, Ibid.


(18) DoD News Briefing, 17 Sep 09, Ibid.

(19) DoD News Briefing, 17 Sep 09, Ibid.

(20) Moscow Objects to Possible U.S. ABM Sites in Caucasus – General Staff (Part 2), Interfax, 21 Sep 09; OSCE Translated Excerpt via World News Connection.

(21) DoD News Briefing, 17 Sep 09, Ibid.

(22) DoD News Briefing, 17 Sep 09, Ibid.


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Russian Federation: Energy Politics

By Creeleia Henderson
Putin welcomes foreign energy firms to the end of the world

The global recession is everywhere in evidence, even in a place known as “The End of the World,” which is how the name Yamal translates in the language of the Arctic peninsula’s native people. Last week at a conference held in Yamal, Prime Minister Vladimir Putin wryly apologized to the assembled executives from foreign energy firms, saying that lunch would not be provided, only bottles of Russian water. (1)

The absence of a free lunch probably didn’t bother the executives who travelled to the remote peninsula not for perks and pampering, but rather for the chance of being allowed to tap the wealth under their feet. Yamal Peninsula sits atop one of the largest natural gas deposits on earth, its reserves estimated at 16 trillion cubic meters, equal to the reserves of both American continents put together, and exceeding those of Asia or Europe. (2) The huge potential of the area has excited the ambitions of energy majors worldwide, their interests reflected in the impressive turnout at Putin’s conference. In attendance were representatives from Japanese Mitsui and Mitsubishi, French Total, Italian Eni, German E.On, Norwegian StatoilHydro, Anglo-Dutch Shell, American Exxon-Mobil and ConocoPhillips, all of whom have a history of working in the Russian energy sector, alongside many other foreign companies eager to grab a stake in Yamal’s as yet untapped volumes of gas. (3)

Russian state-controlled energy giant Gazprom started a pilot project in Yamal, building a transmission corridor to transport gas from the giant gas field Bovanenkovo. At the end of last year, however, with the recovery of oil and gas prices lagging and demand for gas in Europe lower than anticipated this year, Gazprom scaled back its plans for Yamal and pushed the opening date for Bovanenkovo back to 2012. (4) In the meantime, the gas giant is struggling to meet its debt obligations—Russia’s largest company is also its most indebted—
and the company is finding it difficult to launch any large-scale ventures in the current economic climate. (5)

The challenge of bringing new gas streams on line at a time when credit is expensive and capital is scarce has made the Russian government amenable to partnering with foreign companies that promise to bring along ready money. Although from Russian officials’ comments at the conference it was clear that foreign energy firms would not be invited onto Gazprom’s turf at Bovanenkovo, government representatives suggested that they had several different projects in mind, including a liquefied natural gas (LNG) plant that, when completed, would be the country’s second such facility. The envisioned LNG facility would serve the Severo-Tambeyskoye group of fields, half of which is licensed to Gazprom, and the other half to Russia’s largest independent gas producer, Novatek. (6)

The LNG facility is just one project among many that the Russian government would like to see launched with the help of foreign firms in the near future. (7) “We are ready for broad partnership and that is why we invited you here,” Putin said. “We want you to feel like members of our team, participants in this process.” (8) He pledged that the new contracts would be founded on principles of transparency and stability. (9)

Putin’s comments mark a departure from statements made as recently as last year, when he suggested that major new oil and gas fields would be developed solely by Russian national energy companies and pushed the government to pass laws curbing foreign investment in the country’s energy sector. The new laws restrict exploration to companies in which the Russian partner has 51 percent control. (10) Any foreign company with a more than 50 percent equity stake in an energy project requires authorization from the state. Although the tone was much more genial at the Yamal conference, Russian authorities made it clear that any foreign firms that might be engaged to work on future projects would be required to use Russian contractors and materials, and to communicate
their expertise in extraction, production, transportation, and marketing. They also
will be expected to give Russian partners access to their international assets,
including marketing and distribution channels. “That’s the fundamental position of
the ministry,” said Russian Energy Minister Sergei Shmatko. (11) Along with
caveats, the Russian government has held out inducements to foreign energy
firms, suggesting that special tax relief might be arranged to stimulate new
development. (12)

Foreign executives attending the conference seemed receptive to the
government’s general openness, but insisted that a stable fiscal regime would be
a key condition for any deal to move forward. Many regarded Putin’s promise of
transparency and stability with wariness and, if history is any guide, they have
cause for caution. Several of the firms at the conference already have had
dealings with Putin’s government in which their original contracts were revoked
and their projects turned over to favored Russian companies. Shell, Mitsubishi,
and Mitsui in 2006 were forced to yield a 51 percent equity stake in their Sakhalin
II project—Russia’s first LNG facility—to Gazprom for $7.45 billion, $3.55 billion
less than the project was worth. (13) Total had its contract to develop Khargyaga
invalidated in 2007. Such events show that in Russia stability is as scarce as gas
is abundant.

If stability is to be found, it will surely be in the steady interests of the Russian
government and its favored companies. In the past, contracts have been
disregarded and projects surrendered in the interest of asserting national control
over strategic resources. The production sharing agreements (PSA) that granted
foreign firms generous amounts of autonomy and practically guaranteed returns
on investment are most likely a relic of the past. Today, foreign firms are being
welcomed back to Russia’s energy sector, but they will probably be invited to
Yamal as minority partners or service companies without a controlling stake in
any of the projects they undertake. So long as the firms do not try anything
outlandish such as seeking control of a project or overlooking Gazprom’s
monopoly on gas exports, they are unlikely to suffer the same fate in Yamal as they did at Sakhalin or Khargyaga. The more quietly you go, the further you get—even to the End of the World.

Source Notes:
(2) Ibid.
(3) Ibid.
(5) Ibid.
(9) Ibid.
(12) Ibid.
(13) “Russia: Energy Analyst Looks At Sakhalin-2 Takeover,” RFE/RL, 22 Dec 06 via (http://www.rferl.org/content/Article/1073640.html).