



Medvedev and Gazprom:

| by Nazrin Mehdiyeva

President Dmitry Medvedev's close affiliation to Gazprom has until recently been a source of strength for both. With energy prices slipping, the growing risks for Gazprom also become a risk for Medvedev.

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Less than a year into Dmitry Medvedev's presidency it has become clear that energy has emerged as the Russian president's favourite subject. His first official trip was to energy-rich Kazakhstan en route to energy-hungry China. He has toured the states of the Caspian basin and Latin America, signed agreements with Central Asian states to purchase gas and build new pipelines, and held high-level discussions with OPEC.

Why has Medvedev been so preoccupied with energy, at the expense of other policy areas, such as the financial crisis and the growth of state corporations? The answer is two-fold.

First, Medvedev's accession to power was conditional on the appointment of Putin to the post of prime minister. This led to the creation of a second centre of power and the strengthening of some of his old-time rivals. The institutional constraints imposed on Medvedev by the system and the informal agreements he made with Putin now reduce his policy flexibility.

Second, Medvedev has longstanding ties with the energy sector. His chairmanship of Gazprom gave him a power base from which to raise his political profile; in exchange, he consistently lobbied the monopoly's interests in the government.

The symbiotic relationship continues to exist between the monopoly and the Kremlin. Medvedev's standing in the system allows him to provide Gazprom with the support it needs to continue aggrandizing domestically. Meanwhile, the monopoly undertakes projects, such as the gasification of Russia's regions, which are economically unviable but cast the government in a favourable light.

Strong rivals |

At the time of his accession, the new president was vulnerable. The formation of a new cabinet showed that some of his rivals and Putin's close associates would not only stay in high-profile posts but would move with the newly appointed prime minister to the government.

A notable example was the appointment of Igor Sechin, Chairman of the Board of state oil company Rosneft, to the post of deputy prime minister in charge of energy. Sechin's promotion from a deputy chief of staff of the presidential administration spells conflicts of interests across the energy sector. One of the issues that Sechin has successfully placed on the government agenda relates to allowing 'independents' greater access to the network of pipelines over which Gazprom has a legal monopoly. Sechin's initiative



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hanging together

is obviously in the interests of Rosneft, which, like other producers is currently limited in the volume of gas it can send via Gazprom's pipelines. In the absence of free access to pipelines and given Gazprom's export monopoly, Rosneft, like other independents, is forced to either flare the gas it produces or sell it to Gazprom on the cheap.

Prime Minister Putin, pointedly ignoring President Medvedev's stance on the issue, has expressed his support for the proposal in a meeting with Gazprom ceo, Alexei Miller. Remarkably, the proposal has been advocated by the Russian Federal Anti-Monopoly Agency for years, but it took Sechin's intervention to make its realisation likely. To be sure, Gazprom is unlikely to lose its monopoly on either the pipelines or export of Russian gas, but it will probably be forced to revise upwards the pipeline capacity it makes available to other companies from the current 15%. Weakening Gazprom's hold is not good news for Medvedev, as the political and economic muscle of the gas giant is in part a reflection of his own strength. In power clans, Medvedev is closely associated with Gazprom, while Sechin represents the interests of the rival energy champion, Rosneft.

Another example of the strengthening of Medvedev's political opponents and the resultant precariousness of the president's authority in the system is the power and remit recently acquired by Sergei Chemezov, the head of the state-owned military-industrial-technological conglomerate created under President Putin. An old Putin colleague, friend and an insider of his inner circle, Chemezov has won the battle for the control of 426 military and civil enterprises

his appointment to Gazprom in 2000 was to help Putin bring the monopoly under the control of the state. Under its former head, Rem Vyakhirev, Gazprom resembled a 'state within the state', waging political and media wars against its political opponents and supporting its preferred candidates in elections. Under Medvedev, the gas giant was led to understand that its freedom of action would from now on be circumscribed by the Kremlin.

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that the government is now transferring to Rostekhnologii as its contribution to the corporation. A decree to this effect was signed by President Medvedev in July, after months of confrontation within the government.

State within a state |

Medvedev's influence over Gazprom provides him with a support base that he fostered over the years as Gazprom chairman. Medvedev's goal at the time of

In Medvedev's own words, his priority with regard to Gazprom was to enhance the role of the state because 'a company such as Gazprom, in view of its role and functions, should be managed by one owner: the state.' He prevented the break-up of Gazprom into production and transport branches, and curtailed its independence through a thorough purge of the management team. The appointment of Miller to the post of ceo advanced the latter goal. The state's stake in Gazprom increased to 50% plus one share,

and the company's management came to owe loyalty to the regime and those who acted on behalf of this regime's stability, Medvedev and Miller.

Medvedev has consistently lobbied Gazprom's interests and then used its strength as a state company and economic mammoth to propel himself in politics. Medvedev, who in 2005 was put in charge of supervising the government's 'national projects' – that is projects of utmost social importance and urgency to the Russian Federation, which included housing, healthcare, education and agriculture – treated gasification as his fifth, unofficial priority project. Thus, the government has been able to undertake social projects, such as laying pipelines in Russia's remote regions. In exchange, Gazprom has received significant concessions, which have strengthened its dominance in the market.

Medvedev's support for Gazprom has remained robust over the years, and this support has translated into key pieces of legislation that increase Gazprom's hold over Russia's gas resources. In November 2007, the government of Prime Minister Viktor Zubkov identified as strategic 31 fields coveted by the monopoly. All of them were to be majority owned by Russian companies, and the government reserved the right to allocate the fields directly and without a tender. These two provisions greatly increased Gazprom's chances of being allocated the fields and massively growing its already very significant reserves.

The strategic sectors legislation, which seeks to limit foreign investment across a range of sectors, including hydrocarbons, further strengthened Gazprom's claims to large fields by setting the threshold of 50 billion cubic metres (bcm) for gas fields deemed strategic. The legislation has made it possible, indeed likely, that all gas fields in the undistributed fund that are over 50 bcm in size will be awarded to the monopoly without a tender or auction. Almost immediately upon Medvedev's accession in May,

Gazprom was transferred nine such fields without a tender. In July, President Medvedev signed amendments to the law 'On the Continental Shelf', reiterating the strategic status of all offshore deposits and dividing the resources of the shelf between Gazprom and Rosneft.

Medvedev has also engaged in active energy diplomacy. He travelled to the states of Central Asia and Azerbaijan, trying to persuade their leaders to sell gas to Russia at 'market prices'. He has shown personal interest in finalising agreements to build the Caspian Littoral Pipeline, which envisages taking additional volumes of gas to come online in Turkmenistan to Russia. In October, faced with rapidly falling international oil prices, Medvedev supported Miller's talks with Qatar and Iran, and held a personal meeting with the General Secretary of OPEC, the first of its kind at such a high level.

Gas crisis |

The degree of control that the Kremlin has come to exercise over Gazprom, make many of Gazprom's objectives similar to those of

is indeed undeniable. Yet equally undeniable is the support that Gazprom has received from Medvedev during his time as the chairman of Gazprom and, more recently, president. Many of these measures have strengthened the position of Gazprom in the Russian market.

Medvedev's close affiliation with Gazprom links his performance to that of Gazprom. The amassing of reserves that took place at a time of high oil prices and which Medvedev helped to push through will be a mixed blessing, as the company realises that it is unable to develop resources single-handedly at a time of the financial crisis and collapsed oil price.

Already the government has voiced the idea of allowing large state corporations, including Gazprom, to defer some of their investment projects until the financial crisis is over. Medvedev's response, that decisions on those matters were to be left to the companies themselves, gives them carte blanche to do so. But waiting for an economic boom to make the investments, while West Siberian fields continue on their trajectory of decline, will create

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the state. Therefore, Medvedev could argue, that he is advancing the interests of the state. For instance, building the Nord Stream pipeline is in the interests of Gazprom and it achieves the state's aim of bypassing 'troublesome' transit states. Purchasing Central Asian gas is in Gazprom's interests and simultaneously advances the Kremlin's objective of maintaining a strong position in a strategic region. Imports of Central Asian gas are intended to help both the Kremlin and Gazprom avert a gas deficit crisis, which is a particular risk if there are delays with bringing Yamal fields online after 2011.

Thus, the fusion of interests between the state and Gazprom in some areas

serious problems for Gazprom, especially if it is unable to supply the domestic market or honour its export obligations. This would have deep repercussions for the Medvedev presidency.

Medvedev has powerful rivals in the government. They are secretive and influential, and their power has grown quietly but considerably under Putin's premiership. Today they represent a serious force that could marginalise Medvedev as president. A prolonged financial crisis and an economic recession cannot but make Medvedev's position more vulnerable and could have repercussions for the cohesion of Russia's energy policy. ■