

## THE MORE IT CHANGES, ETC., ETC.

Q.: What do a broken clock and Lenin have in common? A.: A broken clock is right at least twice a day and if you wait long enough Lenin too will be right about something.

Lenin famously predicted that the communists would hang the last capitalist using rope that another capitalist sold them. Lenin was right in identifying greed as trumping all else – right and wrong, honor, even self-respect and dignity. The most recent example of this was a recent press conference where one of Lenin's heirs delivered a metaphoric kick to the behinds of three major global capitalists who reacted by heaping praise upon him, thanking him, complimenting him on his exceptional footwork and begging him to kick them again in the future.

President Vladimir Putin, a former KGB lieutenant colonel and former head of the FSB – KGB's successor - called the press conference. It was the culmination of a 6-month assault by the Russian government against Sakhalin II, the world's largest natural gas and oil development project. It was a joint venture of Royal Dutch Shell, Mitsubishi and Mitsui for exploration and development on the Russian North Pacific island of Sakhalin, aimed at expanding and penetrating the Asian market.

Kremlin's campaign began as a surreal investigation by a heretofore-unknown environmental agency's inspector who basically closed the project and threatened hefty fines for every tree that had been cut or would be cut in the future.

After the initial shock it became obvious that the campaign was a transparent attempt by the Kremlin to take over the project and transfer it to the state Gazprom oil and gas entity. It was also clear that the West had no leverage except quiet diplomacy and persuasion. The U.S. and European governments filed protests, warned, cautioned and initiated meetings and conferences in a search for an equitable solution. The Kremlin ignored it all and, inevitably, it won.

Russia's economic self-confidence has increased immeasurably since the collapse of the Soviet Union 15 years ago. It has been bolstered by the increase of the price of oil and heavy European reliance on Russian natural gas. Russia has become indifferent to criticism that once may have affected its behavior and the world has grown to accept this new reality.

Russia began 2006 by shutting off the flow of natural gas by Ukrainian pipelines to Europe while demanding a large price increase from both Ukraine and the Europeans. The Europeans protested and vice president Cheney accused the Russians of using oil and gas as "tools of intimidation and blackmail." Russia wasn't impressed, the price paid to Gazprom was increased to meet Russian demands and, parenthetically, Ukraine was reminded that there were severe consequences to becoming too cozy with the West.

In a symbolic balancing act, Russia ended 2006 by shutting off the pipelines running through Belarus – which until recently was believed to be a close Russian ally. Friendship apparently didn't trump greed: Belarus had its gas price doubled.

Meanwhile, the three foreign companies that had been dispossessed had no criticism of Russia or Putin when it was announced that 50% plus 1 shares of the project would be sold to Gazprom at the discounted price of \$7.45 billion.

The chief executive of Royal Shell, Jeroen van der Veer, thanked Putin profusely for “his support” and proclaimed the surrender of control to Gazprom, “a historic occasion.”

In his turn – Surprise! Surprise! - Putin magnanimously declared that the project’s environmental problems could now “be considered to be resolved.”

An energy analyst at a Moscow investment firm said that many foreign investors were disappointed by their experience in Russia but that this didn’t deter them from trying again and that Shell is still hoping to win access to other Russian oil and gas fields in the future.

In surrendering to pressure, the Sakhalin II investors were certainly aware of what befell companies that resisted Kremlin pressure. Yukos, a major Russian oil company, was taken over by Gazprom and gutted into insignificance and bankruptcy while its CEO, Khodorkovsky, once Russia’s wealthiest man, is serving a long prison term in Siberia.

The Russian arrogance is not confined to economics – murder of opponents is no longer confined to Russia – Litvinenko’s poisoning in London shows that no place is really safe. Moreover, the British government has been very reluctant to say anything critical to Russia even though Litvinenko was a British citizen murdered on British soil and British police were hampered in their investigation in Moscow.

The Kremlin is quite satisfied with its policies and there is no reason to believe that its policies might change. Kremlin spokesmen have pointed out that while the Russian stock market had dropped to an index of 500 when Khodorkovsky was arrested, it had risen above 1800 since then. The chairman of Gazprom's board and deputy Prime Minister, Medvedev, points out that the Gazprom value was estimated at \$9 billion in 2000 and is between \$250 and \$300 billion at present.

Mikhail Kasyanov, Putin's prime minister from 2000 to 2004 and one of Putin's severest critics says that foreigners who rushed to invest in Russia were very shortsighted and equally responsible for Russia's questionable policies. I agree.

I think that they are all rushing to Russia to sell the rope that will be used to hang them.