



Briefing for the President

Russia's Strategic Outlook 2007

Секретно
Администрация Президента

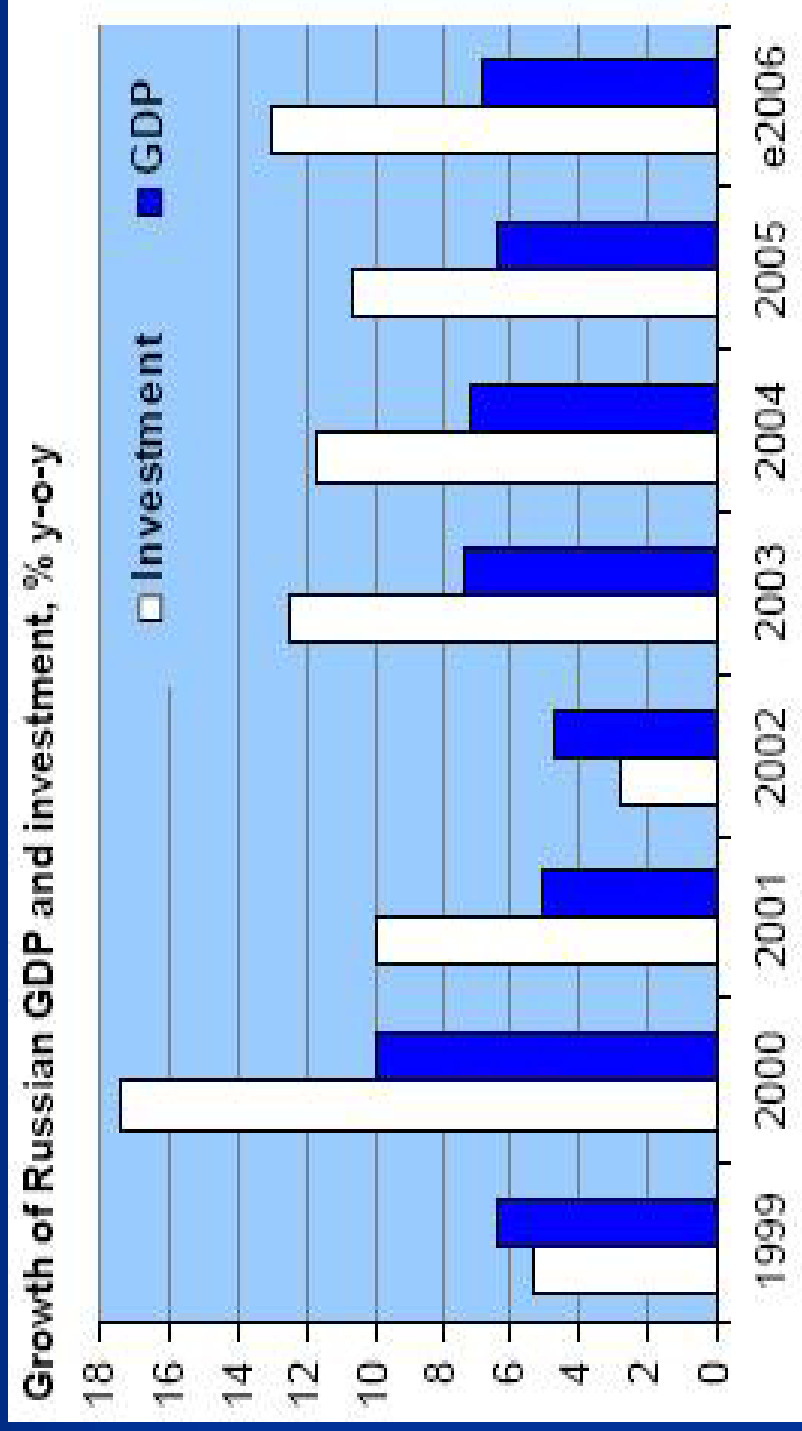
NEAR TERM ECONOMIC OUTLOOK REMAINS POSITIVE



- Growth in real disposable income has averaged above 10% per annum since 2001.
- Real wage growth has also been increasing at slightly higher rates across the same period.
- Federal Budget as Percent of GDP Remains below 24 percent for 2006 and 2007.
- Inflation is coming down, 7.5 percent in 2006 compared to 9.2 percent in 2005



GDP and Investment Remain Strong



Source: World Bank Data, Russian Federal State Statistics Service



Russia's Demographic Position Remains Serious

- Current trend will take us from about 150 million in 1989 to about 90 million at mid-century
- Median age will rise from 25 to 50 years.
- Russian women have 13 abortions for every 10 live births
- Life expectancy has fallen to 65 years from 70 years.
- Russia's Muslim majorities continue to grow and will exceed the non-Muslim European population in as little as three decades.



How Serious is the Threat to the Motherland

- Current trends show a Muslim majority in Europe in a century from now. Europeans will accept this outcome without taking a stand.
- We are likely to face a Muslim majority in less than two generations. Threat from the south is serious and urgent.
- Surging economic, military, and demographic power of the Chinese in the East.
- U.S. foreign policy remains chaotic without a central view of their self interests (elements in US leadership still fighting the cold war)

American Strategy – Central Asia



- Washington's Central Asia policy is misguided—they do not understand the threat.
- Soviet era did a fairly good job of eliminating Islamic fanatics in Central Asia, but now being undermined by US initiatives.
- U.S democratic initiatives in the region are naive, likely to release dangerous forces –harmful to both Russia and the US.
- Americans have no sense of history or the threat, and of most concern are not accountable.



US and the Middle East

- U.S. remains ignorant on how to deal with the Muslim world.
- We have been accused of a policy of excessive force and duplicity suppressing the uprising in Chechnya.
- Free elections have brought Hamas to power in the Palestinian territories, entrenched Hezbollah in Lebanon, and set in motion a civil war in Iraq.
- In contrast, Russia's strategy has now subdued the most stubborn Muslim population in the world.
- Note that the US offers democracy to the Muslim world, and is universally hated, we have nearly destroyed a Muslim country and have been welcomed as a friend in Saudi Arabia.
- So who better understands this part of the world.



Moving Forward With a Positive Strategy

- We have begun to repair the demoralization from the collapse of the Soviet Union
- Centrifugal forces encouraged by Gorbachev and Yeltsin now under control
- Restoration of effective leadership is being established throughout government institutions. Russian people are grateful.
- We remain fortunate that so many loyal patriots from the Committee for State Security (and other members of the power structure) had not abandoned Russia.



Gaining Leverage

- Restoration of military strength is important but not critical and will take decades to restore.
- Russia desperately needs genuine and effective leverage to survive and gaining control of the commanding heights is our only alternative.
- Western critics accuse us of using our resource base for leverage, but major concern of your advisory staff is that it may not give us enough leverage?
- Control of and support from oligarchs is critical – but their outlook is too short term.



Energy Sector

- State Control of Major Assets Key to Addressing Long Term Strategic Threat
- Domestic Energy Pricing Reform Needed, but We Must Move Carefully
- Gazprom Can be an Effective Instrument of State Power and Counter Balance Against Encirclement.
- This Strategy Will Buy Russia Time Until America Understands We are their Natural Ally.



A Perspective from Critics of Russian Energy Policy

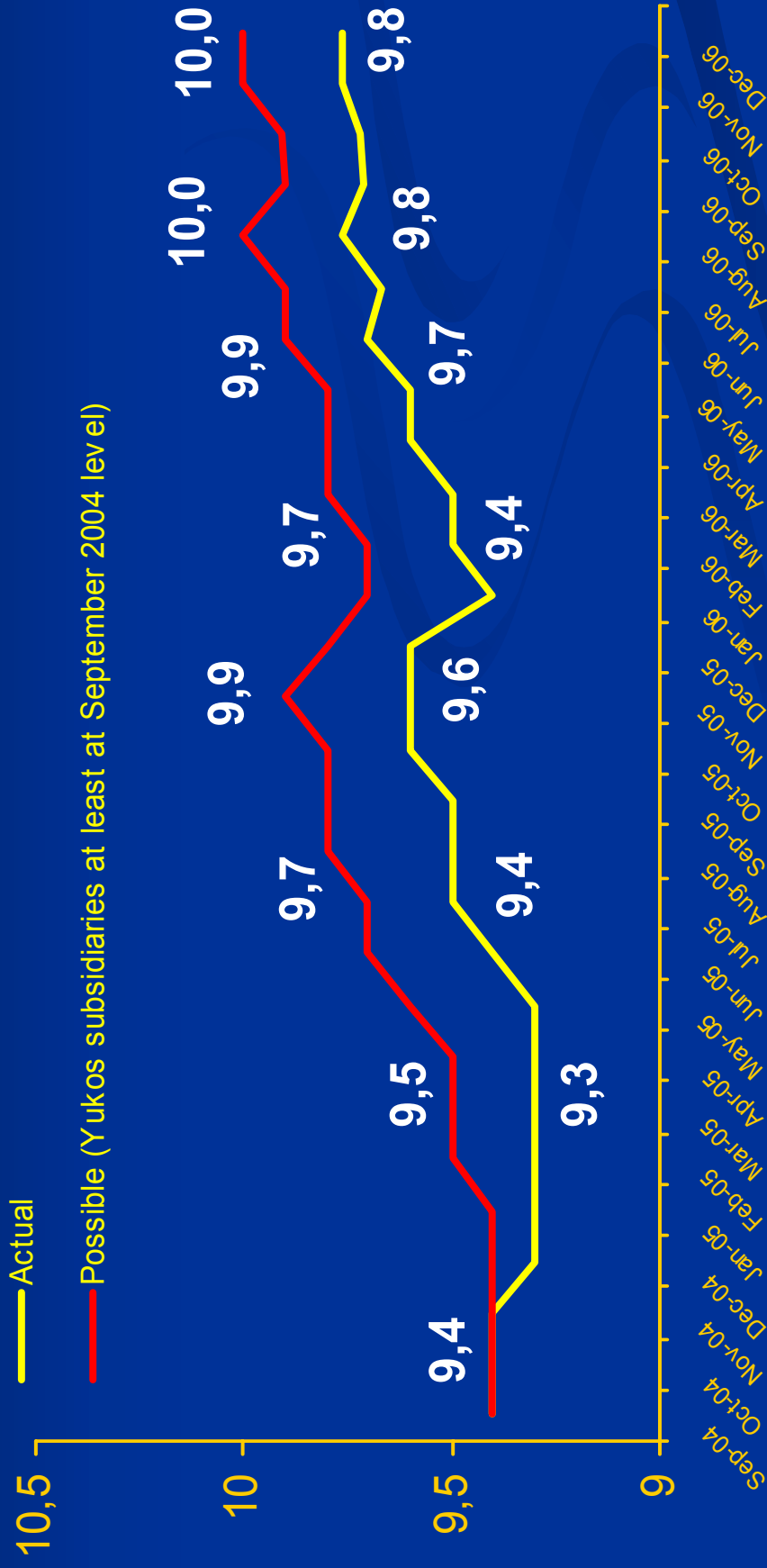
Restriction to Foreign Investment

Investment

- Draft amendments to subsoil law preliminarily approved by Russian Government on January 31st, 2007, allow Government to establish a list of ‘strategic’ oil & gas fields, where foreign ownership has to be approved, and will be limited to no more than 50% minus one share
- According to Russian Natural Resources Minister Yuri Trutnev, such list of ‘strategic’ fields may include 10 oil fields and 26 gas fields
- Specific list of oil & gas fields restricted to foreign control is yet unclear

If not the Yukos case effect, Russia could have already produced 10 mmbd of crude oil

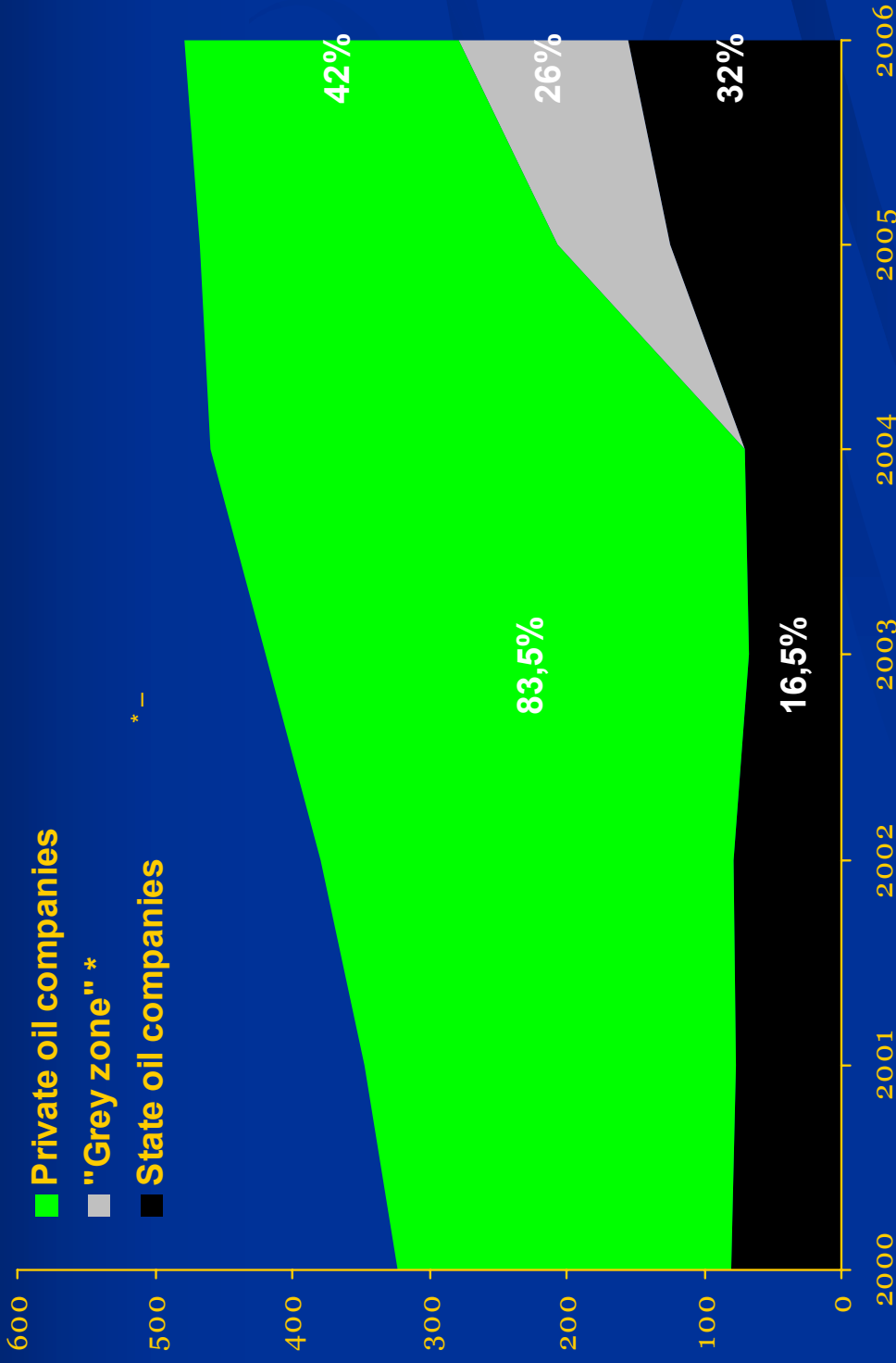
Average daily crude oil output in Russia, million barrels a day



Source: Institute of Energy Policy, Moscow

State companies are expanding their share in Russian oil production

Annual crude oil output in Russia by ownership type, million tones a year



Source: Institute of Energy Policy, Moscow

Will Gazprom Fail to Deliver –

Main Drivers

- Domestic gas demand growth in Russia
- Extent of decline of gas production at depleted fields in Western Siberia
- Appearance of new gas supply commitments (China, etc.)
- Reliability of Turkmen gas supplies
- Effective Project Management

Gas OPEC?

- Gas is not a globally traded commodity
- Spare capacity factor does not exist
- Markets are very fragmented; suppliers are divided between consumer territories
- Iran, Venezuela are hardly net exporters yet
- Turkmenistan interests tend to seriously contradict interests of Gazprom
- Some experts believe a cartel in LNG supplies can appear and exert significant market power over importers (Stern 2006), but not as Russia-Iran-Algeria axis as much as a union of LNG exporters to the Atlantic basin (Qatar-Algeria-Nigeria-Egypt)