

He runs RosPrirodNadzr, the environmental authority, with an iron hand and says he wishes to wipe out corruption in domestic companies as well as the international firms that have taken Russia to be a banana republic. His latest battle, which could have ended up at the Stockholm arbitration court, was his fight against Shell for the Sakhalin-2 energy project. Does deputy minister Oleg Mitvol really mean what he says?

We're not a banana republic, says Mitvol

RUSSIA

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It is a day of wet snow in Moscow. It is early March, the end of a winter that took a long time to arrive and is in a hurry to leave. Outside there is the clamour of the city, the daily battle of morning traffic fought with horns and indicators. Inside, in a café in the very centrally located Tverskaja, a leader waits, somewhat dissatisfied, like someone who wished to fight to the end and could not. In fact the worst mistake you can make with a Russian is to resign before checkmate, as people who have tried their hand at chess, and lost, well know.

The leader in question is Oleg Mitvol, a “krupnij chelovek”, Moscow slang for the big shots in the Russia of the new century. The just-concluded battle was the one for the Sakhalin-2 energy project, a battle – emphasises Mitvol, the deputy head of the Natural Resources Ministry – that would have ended up at the Stockholm arbitration court if Shell had not decided to surrender its majority stake in Sakhalin Energy to “blue gold” colossus Gazprom. “To tell the truth, I was sorry not to have actually gone to court in Stockholm and demonstrated the way things actually were in front of an international court. But it is no longer necessary. Gazprom, now the majority shareholder in Sakhalin Energy, is already aware of our requests and has said it is willing to deal with the issue. As far as I know, 31 March is the decisive date”.

The army that Mitvol heads is RosPrirodNadzor, the Russian environmental watchdog, which reviewed the licenses for the

major energy projects in Russia several months ago. The reason for the dispute was environmental concern – exploitation, say some foreign operators, according to whom Moscow aims at regaining control of the “most sacred heart” of the Russian economy – energy – by using the environmental weapon. However, RosPrirodNadzor actually reviewed all the projects entrusted to international and national companies. And one of the arrows in Mitvol’s bow is the demonstration to the press of violations and illegality by organising visits to locations and placing irregularities under the television spotlight. Today, Mitvol seems inclined to unsheathe his sword to fight corruption, because – as he says – “Russia is no longer a banana republic.”

“They were convinced that they could handle any problem by getting bureaucrats to work with them”, he says, referring to Shell. “I was amazed that an international company to whom we wrote in Russian would reply to us in English. I cannot imagine a Russian company going to Italy and expecting to be given documents in Russian. The official language of Italy is Italian; in the United States it is English, in Russia, it is Russian”.

Do you see other possible cases like Sakhalin-2?

All the projects have their problems, but the main one is that sometimes, instead of trying to solve the problems, people attempt to “come to an agreement with the bureaucrats”. But sooner or later you will encounter a bureaucrat who does not want to come to an agreement.

“Coming to an agreement”, meaning “corrupting”?

You can guess for yourself what it means. In fact, we don't have an infinite number of laws. Any foreign energy corporation can easily hire a lawyer who knows Russian and the rules. If I come to Italy to do business, it's obvious that I have to know the rules of the Italian market. How will I do business otherwise? And if I give money to government officials, it is obvious that I will end up in jail. Here – in Russia – these are elementary things that are forgotten. In your country, I am sure that a government official who first signs a contract and then goes to work for the same company with which he signed the contract, putting the interests of the Italian State at serious



Grazia Neri_Tass photo (2)

_Royal Dutch Shell CEO Jeroen van der Veer greets Russian President Putin at a meeting with shareholders of the Sakhalin-2 energy project at the Kremlin

risk, will end up in jail. In our country, on the other hand, anything goes.

In the light of what has happened, what advice would you give a foreign company prepared to enter the energy sector in Russia?

It is very important to have everything in order from the legal standpoint. And therefore, when an Italian company – let's say Eni – is part of a project in Russia, it is essential first of all to understand on what grounds it will obtain its licence, as well as the method used to enter the project, whether by tender or on the basis of an auction, because there was a time when licences were awarded by tender, not by auction. It was the time of “gifts”, when major factories and plants were given away for nothing. It was enough to make promises. In the West, if you promise to pay, they ask you for a bank guarantee. No guarantees were required in Russia at the end of the 1990s and you could promise anything you wanted. But this is no longer the case.

Coming back to Sakhalin-2: in fact, Shell has passed the ball to Gazprom.

I was very surprised when they sold their shares. Apparently they panicked, and for a specific reason: we had clearly explained to the international press which rules had been broken and what the damage amounted to. And we would have taken the issue to court in Stockholm, not Moscow. So the company (Shell, *editor's note*) got scared and sold. Their



_Work on the Sakhalin Energy pipeline in the Zubrov natural reserve. After a lengthy battle, Shell sold the majority stake in Sakhalin to “blue gold” colossus Gazprom

basic problem was actually deciding that they could comfortably ignore Russian environmental law, and not ask. The company thought it could resolve everything by “coming to an agreement” with the bureaucrats.

Let's return once again to the issue of corruption.

I think that any civil country, including Italy, has been faced with the issue of corruption. In the case of Sakhalin-2 too, at the end of the day, the operator thought it was dealing with the usual “banana republic”. But they made a mistake. If this is the West's opinion of Russia, then it does not fully realise that it is dealing with the biggest banana republic in the world, with missiles and fighter aircraft – in short, a version I would not recommend. Rather, Russian laws have to be respected. Good or bad, they have been approved. And they apply to everyone.

The West's main accusation is that all these environment-related checks mask political reasons and that in the case of Sakhalin-2, as in others, Moscow wanted to regain control of key energy projects. What is your view?

When we consigned 30 documents on violations to the licence commission in the last six months it was of no interest to anyone. But when it emerged that a foreign company had not done what it had promised

in writing, then it was: “Oh, it's political intrigue”. In the West, journalists apparently can't get work if they don't dig out these “Muscovite plots”. There is a club of analysts ready to explain anything that happens: the next day you can already read their whole analysis. Who knows how they do it? It was really ridiculous in November, when we started our checks on Rosneft (the Russian State-owned oil company, *editor's note*) in Sakhalin and they immediately found the explanation: “Gazprom wants to buy Rosneft”. Then we started checking Gazprom and they immediately said: “This means that Gazprom is in a bad position and now the most important company is Lukoil”. Finally there were the checks on Lukoil and they went: “No, it's the opposite: Rosneft wants to buy Lukoil”. You can check it for yourself by reading everything that was published in the course of only two months. But I say, wouldn't it be easier for all these experts to just admit: “We don't understand what's happening”?

So can you offer an interpretation of what happened between October and November? – i.e. the series of environmental controls on the licences of Russian and international energy companies?

We acted in an entirely civil manner. I remember our reviews of Lukoil in October and the Evraz Group in February. In the latter case the court ruled that the company should pay a record sum for Russia for environmental damage: 2.8 billion rubles, or about 110 million. Of course, we think with envy of our American colleagues, who manage to make companies pay fines of billions of dollars on the basis of the principle of compensation for damages. And in fact we look at the Western countries in which the first environment-related scandals broke out: in Italy it is clear that if you pollute, you must pay. In Russia you are dealing with domestic and international companies. It is particularly complicated to negotiate with the latter, and if you say something it is “because you want to take back the project”. And then there is still the conviction that “we can come to an agreement” with bureaucrats. But times have changed: today, bureaucrats are well paid, and it is far harder to “come to an agreement” with them.