

Why Dvorkovich and Sechin's Turf War Is Public

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Rival groups fighting for control of Russia's vast energy sector are caught in a standoff.

In one corner is Arkady Dvorkovich, the 40-year-old Duke University-educated deputy prime minister responsible for energy issues and a loyalist of Prime Minister Dmitry Medvedev. In the other corner is Igor Sechin, his 52-year-old predecessor as deputy prime minister and long-time associate of President Vladimir Putin. Sechin is regarded by many as the archetypal silovik who played a vital role in restoring state ownership of the Russian oil industry through Rosneft's hostile takeover of Yukos.

Analysts regularly paint Dvorkovich as a progressive figure who favors greater liberalization and privatization of the energy sector, while Sechin is portrayed as a conservative who would like to make the state holding company Rosneftegaz the vehicle for privatization and increase its influence in the process. (Rosneftegaz holds the state's 75 percent stake in Rosneft, the country's largest oil company, and an 11 percent stake in Gazprom).

Their battle took another turn on July 10 when Dvorkovich appeared to gain ground on Sechin after the newly formed presidential energy commission, chaired by Putin, refused to sanction the privatization of the state hydroelectric company through Rosneftgaz. Dvorkovich put down another marker by saying that the Medvedev-led government would decide on the dividends to be given by Rosneftgaz and have them paid to the state budget.

Reports of Sechin's demise have proved greatly exaggerated. He should by no means be written off. Just months ago, the Moscow rumor mill said he had cancer, and many commentators concluded that he was finished. He had been forced off the boards of Rosneft and its holding company Rosneftgaz. He had also suffered the humiliation of being outplayed by BP's Russian owners, who had stopped the consummation of BP's deal to explore the Arctic jointly with Rosneft.

Since Putin's return to the Kremlin, Sechin has bounced back as CEO of Rosneft and a board member of Rosneftgaz. He has also been appointed to the influential position of secretary of the presidential energy commission. Meanwhile, Dvorkovich chairs a government commission on the energy sector.

It is by no means unusual to have duplicate structures in the Russian government system, but it is a mistake to believe that they are the real locus of decision-making.

Instead, policy decisions tend to be made by a small group of individuals, usually associates of Putin who have direct access to him. In the case of energy issues, top managers of leading companies often play a role in this process. This system does not favor Dvorkovich, who does not have an energy background and still has to develop relationships with some of the industry's key players.

But in Russian power struggles, tactical moves can often obscure the real game that is being played. The question that observers should be asking is not what Dvorkovich or Sechin has gained, but why the system has been configured to allow them to fight so publicly.

Under Putin's rule, rivalries and conflicts within the ruling elite often take place in public so they can be overseen and controlled by Putin, who acts as a supreme arbiter or mediator. This form of divide and rule underlines Putin's considerable personal importance to the functioning of the system and is a source of his power. The resulting decision-making model is slow and inefficient because it uses informal mechanisms of "manual control" to reconcile competing interests.

This system took shape under former President Boris Yeltsin and is a feature of countries with weak institutions and low levels of government accountability. In the case of energy issues, "manual control" in decision-making became more institutionalized under Putin because of his strong personal interest in the sector and his understanding of how important the energy sector could be in restoring Russia's economic fortunes and global influence.

Yet difficult decisions lie ahead. Putin will have to mediate a position on energy sector privatization that "progressives" and "conservatives" can accept. In reality, this is likely to be a number of separate decisions that gives roughly balanced concessions to both. He also has to negotiate an outcome to the deadlock at TNK-BP after BP's announcement that it intends to sell its 50 percent stake.

The prize of controlling TNK-BP, Russia's third-largest oil company that accounts for 14 percent of crude oil production, is likely to provoke fierce rivalries to the point where the complexity of ownership scenarios and their consequences for the sector as a whole could make it impossible to agree on a resolution that keeps the main parties happy. There is also likely to be a struggle between rival groups over the implementation of the recent decision to return to open auctions for oil and gas fields.

While competitive divisions have been a balancing force at the heart of Putin's system of rule since he came to power in 1999, the energy sector currently poses problems that are not easily managed and could divide rival groups and destabilize that system. Putin's loss of support in society over the past year adds another complication, since he may no longer have the same authority or ability to resolve major disputes and contain competitive business interests as he did in the past.

Over the next months, development in the energy sector could provide important indicators of how effectively Putin's decision-making model is working.

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