

*November 23, 2015*

## **Putin and Flight 9268**

*(Due to the Thanksgiving holiday, our next report will be published December 7.)*

On October 31<sup>st</sup>, Russian Metrojet Flight 9268 took off from Sharm el-Sheikh, Egypt, at 5:58 local time en route to St. Petersburg, Russia. Within 25 minutes, the aircraft, an Airbus A321, disappeared from radar over central Sinai. By the time radar contact was lost, the aircraft had reached its cruising altitude of 33,000 feet. Shortly thereafter, airplane debris was reported over the area. All 224 passengers and crew were lost, making it the worst Russian civilian air disaster in history.

In this report, we will examine the potential causes of this event. Given that a terrorist group may be the culprit, we will discuss the most likely perpetrator. Next, we will analyze how Russian President Putin will likely react to this event. As always, we will close with potential market ramifications.

### **The Causes**

Commercial aircraft disasters are usually caused by one of four reasons: catastrophic mechanical or electrical failure, pilot error, weather, or a man-made cause (sabotage, terrorism, military activity, etc.). In the case Flight 9268, weather can easily be ruled out; reports indicate there were no weather problems in the area. Pilot error is unlikely given that the aircraft was at cruising altitude; the pilots would have had ample time to address and correct errors. Thus, only two causes remain.

Mechanical or electrical failure could not be initially ruled out; however, the flight recorders showed little indication of that sort of problem. On the other hand, the flight recorders noted that there was a loud noise just before the plane's gauges behaved erratically and then ceased to operate. That situation is consistent with a man-made event.

Although Egyptian and Russian officials initially denied the possibility that a terrorist act could have caused the disaster, Western governments believed that an explosion was the most likely explanation. The U.S. has satellite data that shows a flash around the aircraft which is consistent with a bomb. British intelligence suggested that there was an increase in signal "chatter" in the region that often precludes a terrorist event. Within a week, Western airlines were avoiding the Sinai.

Last week, Russian officials concluded that a bomb was responsible for the downing of Flight 9268, indicating that TNT residue was found on the aircraft debris. Russia has offered a \$25 mm dollar reward for information leading to the identification of the culprits.

Egyptian officials have a strong incentive to deny the official determination of a bombing. Egypt is dependent on tourism.<sup>1</sup> However, it does appear the rest of the

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<sup>1</sup> The World Tourism Council estimates that tourism represents about 15% of Egypt's GDP, down from 19.5% in 2007. In November 1997, terrorists attacked tourists at the Luxor pyramids. Tourism was 13.7% of GDP in 1997, but fell to 11.8% in 1998 in the wake of the massacre.

world is treating this as a terrorist event, which means Egypt's economy, which is already suffering, will come under further pressure. We note that Egyptian authorities have detained 17 employees of the Sharm el-Sheikh airport for questioning regarding the downing of the Russian aircraft. Two are suspected of assisting whomever put the bombs in the cargo hold. According to Reuters, CCTV footage shows a baggage handler carrying a suitcase from an airport building to another handler who was loading the aircraft. The report also noted that security officials were searching for two employees who abandoned a baggage screening machine while passengers were boarding the aircraft.<sup>2</sup>

### Who is to Blame?

It is not uncommon for terrorist groups to claim responsibility for tragic events even when they were not involved. After all, the goal of a terrorist is to terrorize. Another potential issue is the “false flag” event, a favorite of conspiracy theorists everywhere. In this type of operation, a developed world intelligence agency performs a terrorist act and either allows an actual terrorist group to claim responsibility or uses similar methodology of a terrorist group to lead the public into blaming the terrorist for the act.<sup>3</sup> Some elements of the Russian media are already suggesting either the U.S. or the

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<sup>2</sup> <http://www.reuters.com/article/2015/11/17/us-egypt-crash-bomb-arrests-idUSKCN0T60VM20151117?feedType=RSS&feedName=worldNews>

<sup>3</sup> Although conspiracy theories about false flag operations are common, there are enough actual false flag events that occur to make such accusations plausible. One of the most important of such events occurred during the Second Sino-Japanese War in 1931, when Japanese soldiers bombed a section of railway used by the Japanese military. The Japanese army blamed Chinese insurgents for the attack and used the bombing to justify an invasion of Manchuria.

U.K. bombed the aircraft or supported IS in the attack.<sup>4</sup>

Despite these claims, it appears that a jihadist group affiliated with IS, known as Ansar Beit al-Maqdis (ABM),<sup>5</sup> is likely responsible for the attack. It was formed in 2011 and operates in the Sinai and the Gaza Strip. After Egyptian President Mubarak was ousted in 2011, tribal groups in the Sinai that opposed the regime banded together to drive Egyptian security forces out of the region. In the ensuing power vacuum, tribal militants joined an existing al-Qaeda-linked group, al-Tawhid wa'al-Jihad, to form ABM. The group is thought to have 200 active members with up to 1,000 that might be willing to participate in operations.

ABM has engaged in attacks against various targets since its formation. These include a series of attacks on natural gas pipelines and several deadly operations against Egyptian security forces. They also attacked a tourist bus in 2014. The *New York Times* called ABM “Egypt's most dangerous militant group.”<sup>6</sup>

The Sinai tends to be hard for Egypt to secure because it has been a demilitarized zone since the end of the 1973 Yom Kippur War. There are manpower and equipment limitations in the region that prevent Egypt from a full-scale military assault against insurgent groups.

During Egyptian President Morsi's administration, ABM focused its attacks on Israel. However, after Gen. Sisi's coup against Morsi, ABM has mostly focused its

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<sup>4</sup> <http://www.theatlantic.com/international/archive/2015/11/russia-metrojet-flight-9268/415161/>

<sup>5</sup> It is also called Wilayat Sinai by some sources.

<sup>6</sup> [http://www.nytimes.com/2014/11/11/world/middleeast/egyptian-militant-group-pledges-loyalty-to-isis.html?\\_r=2](http://www.nytimes.com/2014/11/11/world/middleeast/egyptian-militant-group-pledges-loyalty-to-isis.html?_r=2)

attacks on Egyptian security installations and personnel. Although ABM isn't recognized as a terrorist organization by the U.N. or the EU, the U.S. State Department officially designated the group as a terrorist organization in April 2014. In addition, the U.K. has had ABM on its list of Proscribed Groups since November 2014.

Despite the obstacles faced by the Egyptian military, the Sisi government has enjoyed some success against ABM in recent months. From March to October 2014, Egyptian security forces killed several top leaders of ABM; in fact, two died on the same day in March 2014. As the group's leadership was steadily eliminated, the existing leaders sought outside support and turned to IS. Over the following months, IS offered financial support and it appears there was some coordination of operations between IS and ABM. In November 2014, the leadership of ABM took an oath of *bayat*<sup>7</sup> to Abu Bakr al-Baghdadi, the leader of IS.

It appears that ABM swore an oath of *bayat* because it was in difficult straits and needed support from IS. Despite this profession of allegiance, it is not clear how much control IS has over its new affiliate in the Sinai. In fact, it isn't clear how much control IS has over *any* of its other affiliates. As al Qaeda's leadership has discovered, Western intelligence agencies have superb signal-gathering capabilities, which means that electronic communications are impossible to keep secure. The upper leadership of al Qaeda has been reduced to using human couriers to send important messages. Thus, it is quite possible that if ABM is behind the Russian aircraft event, the decision to attack and its execution were done independently of IS in the Levant.

### What Happened?

It has been concluded that a bomb in the cargo hold brought down flight 9268. The fact that the tail section was found severed from the rest of the fuselage supports this idea. Russian identification of TNT residue confirms the fear that this was a terrorist act. IS has taken responsibility for the attack and implied that it targeted the Russian airliner because of Putin's recent decision to support the Assad government. Although we believe IS was at least peripherally involved, we doubt Russia's recent involvement in the conflict was behind this attack. After all, the U.S. has been directly involved in bombing IS; Turkey has also supported U.S. efforts and neither has suffered a similar attack.

Russia has been mostly attacking insurgent groups focused on removing Syrian President Assad. Assad has been attacking the same groups for some time. Interestingly enough, IS has also been attacking these groups, unhappy that they have not sworn an oath of *bayat* to IS. Due to their focus on non-IS insurgent groups, Syria and Russia, for the most part, have avoided attacking IS. Thus, neither country appeared to be an enemy of IS. That may change in light of the airline bombing but, for now, the attack on Russia is probably not due to its support of Syrian President Assad.

It is important to remember that terrorists of all stripes like attacking civilian aircraft. It is hard to find a better target that can be attacked with equal visibility. Airplanes fly at high speeds and are rather fragile. A small explosive device can wreak havoc so there is great incentive to target airliners. Airliner attacks, either bombing or hijacking, are a relatively low cost way of frightening the population of the targeted country.

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<sup>7</sup> For a discussion of the concept of the caliphate, see WGR, 4/27/2015, [The Ideology of IS](#).

Of course, these observations are no secret to the aviation security industry. Security officials have responded in a number of ways. Israel's airline security is considered the world's gold standard.<sup>8</sup> Security has evolved; a visit to Kansas City International Airport, which opened in 1972, offers a glimpse into how security has changed. Initially designed to allow one to "drive to your gate,"<sup>9</sup> it has been forced to add security barriers that heavily restrict traveler movement. The creation of the TSA in the aftermath of 9/11 is further evolution of airline security.

It is a safe assumption that virtually all terrorist groups are either considering or working on attacking airliners. The attack on Flight 9268 was more likely an act of opportunity. Russian airline security lags the West, and Egyptian security, as noted above, is weak and vulnerable to corruption. It appears that ABM was either able to put a baggage handler in the airport or was able to bribe or coerce a handler or security official into allowing a bomb to be put in checked luggage.

Criminal experts will often remark that most criminals prefer to exploit easy targets. Terrorist are little different. El Al airplanes are rarely targeted by hijackers; the last successful hijacking of an El Al flight was in 1968. Other airlines have been hesitant to deploy El Al's security methods. They are expensive and, at least in the U.S., bordering on discriminatory due to their use of profiling. But, their methods are very effective.

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<sup>8</sup> <http://www.globaltravelerusa.com/global-traveler-announces-11th-annual-gt-tested-reader-survey-awards/>

<sup>9</sup> TWA insisted on this design, which became obsolete due to security measures put in place to thwart Cuban hijackers in the 1970s.

### **What will Putin do?**

Everything in Putin's history suggests a massive retaliatory response. His actions against Chechen terrorists show that he will use "scorched earth" tactics and has little compunction about avoiding collateral damage.

However, Putin is also disciplined. He will tend to focus on longer term goals and use situations to further those aims. Russia's primary near-term goal is to achieve sanctions relief. U.S. and European sanctions, along with low oil prices, have severely hurt Russia's economy. Although low oil prices will remain until Riyadh changes its oil production policy, sanctions relief might be attainable.

Complicating Putin's response is that he doesn't have a clear target. Although IS seems an obvious choice, a full-scale ground war against the group will be very costly and there is little chance of success. Even if Russian troops were able, at acceptable cost, to destroy IS, it might not improve conditions in the region. As the removal of Saddam Hussein and Muammar Qaddafi have shown, the replacement of such strongmen seems to result in chaos. In addition, Putin has to know that if the U.S., with more resources and a much better military, was unable to reconfigure the region in an acceptable manner, Russia has almost no chance of being able to do so.

There is little chance Putin will attack ABM. Russian military activity in the Sinai will upset the U.S., Israel and Egypt, and there is no guarantee that any action will be successful. Again, the U.S. experience against the Taliban shows that developed world military operations are rarely successful against insurgent groups.

Instead, look for Putin to leverage his situation in Syria and Ukraine, along with the terrorist attacks in Paris, to gain sanctions relief. At the recent G-20 meeting, Putin was active in consulting with world leaders about Syria, IS and terrorism, offering his support. Russia has proposed to soften its loan terms with Ukraine. France has called for the creation of a coalition to attack IS that includes Russia. We suspect Putin will ask for sanctions relief as a *quid pro quo*. Although the U.S. will oppose relief, European nations trade with Russia and would like to return to normal trade relations.

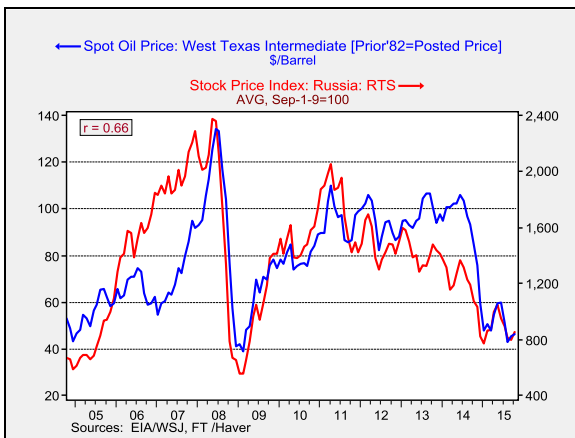
**Ramifications**

If Russia is able to gain sanctions relief, we would expect Russian financial assets to benefit. A significant rally would require a lift in oil prices, but easing sanctions would likely boost the ruble and improve Russia’s economic prospects.

This chart shows the Russian equity index (the RTS) along with West Texas Intermediate oil prices. The two series are positively correlated and tend to move with each other. Note that the two series diverged in 2013 as conditions in Ukraine began to deteriorate. The Euromaidan Revolution, which led to the ouster of President Viktor Yanukovich in 2014, also led to sanctions against Russia which depressed the RTS even though oil prices remained high. The collapse in oil prices has further weighed on the RTS. Still, we would expect news on sanctions relief to support Russian equities.

In the coming weeks, we will also discuss the recent IS-affiliated attacks in Paris. IS does appear to be changing its tactics and this adjustment is very important to global stability.

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