2005-11-03

The ISCIP Analyst, Volume XI, Issue 2

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http://hdl.handle.net/2144/11809

Boston University
Economic politics on display at Boston Symposium
At the U.S.-Russian Investment Symposium in Boston this week, certain clear difficulties and obstructions to trade, development, and investment in Russia emerged through the panels and discussions. The WTO accession negotiations were a conspicuous focal point (with most participants arguing in favor of rapid accession) and demanded discussion of Russia's need to improve its protection of intellectual property rights, tighten banking regulations and general conformity with international norms, prevent capital flight (even if there are reasonable motives to move money out of the country), and, more broadly, develop as a rule of law state that has a truly independent judiciary, which applies its legal standards uniformly both to individuals and companies. Negotiating the complex allies and footpaths of the Russian bureaucracies (national, regional, etc.) also represents an obvious impediment to regularized trade and, of course, daily life.

While noting the difficulties in attaining the appropriate conditions for WTO accession, Russian First Deputy Minister of Trade and Economic Development, Andrei Sharonov, highlighted the need for diversification of streams of capital, and the danger of relying too heavily on the energy sector as the "golden goose," despite the many "golden eggs" it has produced.

Minister Sharonov recommended the "commercialization of technological ideas," which would make use Russia’s significant pool of expertise and trained specialist, particularly in high technology, biotechnology, and civilian aviation. Ambassador Thomas Pickering (currently senior vice president for international
relations at Boeing) echoed Sharonov's upbeat appraisal of the value of Russia's human and intellectual resources.

Russia's political situation, from difficulties in executive-legislative cooperation to the coming parliamentary and presidential elections, serves as a backdrop for any consideration of short and long term planning, investment and development. Despite the impending succession, constitutionally required in 2008, participants in the Symposium reiterated a familiar Putin-era refrain: Political stability in Russia is the good news—and the bad news.

Andrei Illarionov, Adviser to President Putin on Economic Affairs, delivered the keynote address and covered a range of elements crucial to doing business in Russia. Perhaps the most fascinating aspects of his presentation consisted of the companies he chose to highlight his points: RAO UES, which has seen comparatively small growth and fluctuating returns; and Mikhail Khodorkovsky Yukos, which, particularly prior to 2004, produced remarkable growth and returns. Yukos, Illarionov noted, began investing in oil and politics, which was painful for certain members of the political establishment. Illarionov, somewhat dryly, noted that the attitude of the political authorities could prove a significant factor in any company's success.

Asked during the question and answer session if he had presented his report to Anatoli Chubais, the Chair of RAO UES, Illarionov responded only that the management company of RAO UES that took over in 2001 had recently begun to pay attention to capitalization.

**Council on National Priorities**

On 21 October, President Putin decreed the creation of a council for the implementation of national priorities. The composition of the Council includes Putin as Council Chairman; Head of the Kremlin Administration, Dmitri
Medvedev, as First Deputy Chair, with Deputy Prime Minister Aleksandr Zhukov and Presidential Aide Igor Shuvalov as Deputy Chairmen. (1)

Other members of the council include select regional leaders (governors and mayors) and government ministers; the president's plenipotentiary representatives to the regions (including former Chief of the General Staff Anatoli Kvashnin); president of the Chamber of Commerce and Industry, Yevgeni Primakov; presidential aides and academicians. The Council specifically will address issues of healthcare, housing, construction, education and the agro-industrial complex. (2)

The Council's mission and composition suggests an attempt to circumvent or overlap governmental structures established to address these same priorities, but with an added impetus of direct presidential oversight and with regional implementation built-in through the president's plenipotentiary representatives and the chosen regional leaders. A Nezavisimaya gazeta report suggests that Prime Minister Fradkov is the target of the creation of this Council. However, this Council could be a natural extension of Putin's "strengthening of the power vertical" by subsuming a wide range of functions under direct presidential oversight. If Putin were directing an attack against Fradkov, it would seem he might pick a different playing field than that afforded by the new Council's brief. Indeed, if the President truly wanted to sideline the Prime Minister, he might have put Fradkov in charge of the agro-industrial complex; it is a time-honored tradition, after all.

Source Notes:

(1) ITAR-TASS, 21 Oct 05, 0551 EST; FBIS Transcribed Text via World News Connection (WNC).
(2) Ibid.
(3) Nezavisimaya gazeta, 24 Oct 05; FBIS Translated text via WNC.
Russian Federation: Security Services

By John Kafer

Russian Security Services respond to Nalchik attack

Recent History
In light of questions raised about the effectiveness of Russian security forces¹ response to previous high-profile terrorist attacks, a review of their recent conduct during the 13 October militant attack in Nalchik clearly is warranted. While not quite a repeat of previous encounters, the recent Nalchik attack targeted armed Russian security forces where previous high-profile attacks centered on hostage-taking events, the reaction and performance of Russian security forces bear similar resemblances. Each of the events indicates a particularly repressive and brutal response by security forces that terrorists argue reflects the behavior which led the militants to take extreme measures in the first place. (1)

Russia’s security forces seem plagued by incompetence and extremely disproportionate response. During the infamous Nord-Ost Theater attack in October 2002, 50 terrorists held 800 Russians hostage. The FSB response was uncoordinated, poorly-planned and culminated in the release of an as-yet-unknown gas, which claimed the lives of 120 hostages; all 50 terrorists were killed, mostly with well-placed shots to the head.² (2) In the September 2004 attack at the Beslan school, at least 32 terrorists held 1200 hostages. Three days into the crisis, security forces stormed the school with indiscriminate firing from tanks, flamethrowers, and grenades killing 331 hostages, including 170 children and all but one terrorist. (3) The security forces non-proportional responses appear more as a matter of routine than exceptions for high-profile hostage situations; the flattening of houses with tanks to get the terrorists inside also has become a standard operating procedure. (4)
Events in Nalchik

At 3:00 am on the morning of 13 October, Internal Affairs troops encountered a group of armed militants in Nalchik, killing three and wounding seven of them. (5) Several hours later (reports continue to vary on the specific time of the attack, precise number of targets and the number of targets hit), between 9:30 and 10:00, somewhere between 60 and several hundred militants simultaneously attacked 12-15 local Interior Ministry (MVD) buildings, Internal Affairs Department (OVD) buildings, FSB buildings, a military garrison near the airport, a military enlistment office, and a Border Troops section. The attackers primarily used automatic weapons and grenades. (6) Within an hour, air contact with Nalchik was cut off, stifling information, except from official sources, as to precisely what happened thereafter.

Despite limited media reports, it is clear that confusion reigned among the security forces for several hours. At 1:00 pm, Dmitri Kozak, the Presidential Envoy to the Southern Federal District, arrived in Nalchik and stated that security forces had managed to control the situation. Various reports widely contradict his assessment; for several hours, security forces apparently reacted with a limited response, enabling most of the attackers to escape the city. At 2:00 pm, reports arrived that attackers, some wounded, were holed up in two locations, an OVD building and the Podarki store, near an FSB building. By 10:00 pm MVD reported that all fighters inside have been killed and all hostages freed; however other reports suggest some hostages were held until the following morning. (7) Individual stories and reports raise questions regarding the conduct and effectiveness of the security forces.

Most analysts agree that Moscow’s heavy-handiness in the Caucasus regions is causing extremist reactions among the population and that might have spurred the Nalchik attack. The newly-elected President of the Kabardino-Balkaria
Republic, Arsen Kanokov, agreed, stating that Russian officials may be guilty of certain excesses including closing Mosques and mistreating Muslims. (8)

Given the choice of targets, the militants seemed intent on attacking the security forces directly, but also chose targets of opportunity, including civilians. The security forces’ response to the hostage situations displayed a total lack of regard for the hostages. One former hostage, a local police captain who was lucky to survive, reports that armored personnel carriers arrived and began to hammer away, constantly hitting the second floor where the hostages were located while most of the attackers were on the first floor. (9) In a separate hostage situation that lasted until the following morning, a witness reported that Spetsnaz troops, under cover of heavy machine gun fire pumped round after round of grenades into a small shop for 30 minutes where militants had taken hostages. (10) Security forces subsequently reported to the press that all hostages had been freed. Another surviving hostage reported Russian troops stormed a store after firing gas grenades to kill militants who were already too weak to resist. The surviving hostages suffered from the effects of an unspecified gas. (11)

The Fallout
Russian officials have a history of overstating the number of enemy killed and underestimating their own losses. Reports from Nalchik raise intriguing questions. On 14 October, officials reported 61 militants killed and 27 captured. (12) One week later officials reported 92 killed and 13 captured, with only 12 civilians killed and no explanation for the reported increase in persons killed or reduction in those captured. (13) Seasoned military analysts recognize that wounded in action typically far exceed those killed in action. Russian officials claim 24 security personnel were killed while over 100 were wounded, a similarly high ratio of wounded to killed. (14) Meanwhile, Chechen warlord, Shamil Basayev, who claimed responsibility for organizing the attack, reported only 41 militants were killed. (15) Other reports that indicate all the dead terrorists have
holes in the back of their heads\(^2\) and that a large number of innocent bystanders were captured by Russian security forces. (16) Reported revenge attacks against the population may go a long way to explaining the disproportionate number of \(^3\)militants\(^2\) killed versus those captured.

A former KGB Colonel, Sergei Goncharov, accurately assessed the status of Russia’s elite antiterrorism forces, \(^3\)Everywhere there is pervasive corruption and complete treachery. It is laughable to talk about fighting terror.\(^2\) (17) Indeed, Russian security services\(^1\) and armed forces\(^4\) total disregard for human rights and treatment of prisoners, against any accepted international norms, has not resulted in subordination of the population to the will of Moscow. On the contrary, such actions have now spread the violence from Chechnya throughout the entire Caucasus. Russian President Vladimir Putin fuels the instability with statements of praise for the security forces like, \(^3\)It's great that all of the law enforcement and power agencies acted in a coordinated, effective and ruthless manner.\(^2\) (18) Given this level of support for unprofessional, undisciplined, ruthless actions by security forces against its own citizens, Russia cannot hope to achieve either pacification of the populations in its Caucasus republics or stability.

Source Notes:

(1) \(^3\)Why Kabardino-Balkaria is Becoming a Second Dagestan\(^2\) by Paul Goble, Window on Eurasia, 19 Oct 05 via Johnson’s Russia List (JRL) #9271.
(2) See \(^3\)Security Services\(^2\) The NIS Observed: an Analytical Review, Vol. VII, No. 19, 4 Dec 02.
(3) \(^3\)Beslan: Russia’s 9/11?\(^2\) by John B. Dunlop, 12 Oct 05 available at http://www.peaceinchechnya.org/reports/Beslan.pdf
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Russian Federation: Domestic Issues and Legislative Branch
Wolfowitz goes to Moscow

Paul Wolfowitz visited Russia for two days in October as part of his first official trip since formally assuming leadership of the World Bank. Wolfowitz's other destinations included China and Japan. A key issue for discussions between Wolfowitz and President Vladimir Putin was the potential for Russia to make economic development a top priority when it assumes chairmanship of the G8 next year. Wolfowitz also met with Prime Minister Mikhail Fradkov to discuss judicial reforms and stressed the importance of addressing prevalent corruption within Russia’s state and society.

In keeping with previously expressed World Bank concerns, Wolfowitz urged Putin not to waste the money from the Stabilization Fund (the account set up to hold the extra income the state has received in the last several years because of high world energy prices). The state has come under increasing pressure to use the Stabilization Fund to ease the pain of some of its social policies, not least of which was the monetization of pensions issue in January. The state dipped into the fund to boost military pensions after protests last winter.

In line with recent World Bank trends that view the Bank as an exporter of ideas as well as capital, the new World Bank president commented on the changing nature of the Russia-World Bank relationship. The World Bank Group's role in Russia has evolved over time. Today our partnership is less about money and more about the transfer of ideas and expertise to address key priorities in health, education, regional development and the fostering of public-private partnerships, said Wolfowitz. (1) Relations between Russia and international financial institutions hit an all-time low during the 1998 ruble crisis when Russia defaulted on its loans and the International Monetary Fund responded to the crisis by offering too little help, too late. In the intervening years, Russia has not taken
concerns by these organizations very seriously; nonetheless, the World Bank currently has a number of active projects in Russia.

Wolfowitz raised an interesting possibility when he discussed the prospect of World Bank lending to Russia’s regions. "As far as I know," said Putin after his meeting with Wolfowitz, "the World Bank is examining the possibility to offer financial resources to Russian regions even without guarantees of the federal centre." (2) Access by the regions to capital from the World Bank apart from approval by the Kremlin could introduce an interesting dynamic into the ongoing struggle between a centralized state and regional authorities.

On a related economic note, predictions about when Russia will join the World Trade Organization (WTO) are varied and often contradictory. Unwieldy negotiations with the United States about trade barriers constitute a significant step that must be completed before Russia’s accession to the WTO can move forward. However, U.S. ambassador to Moscow, William Berns, has said that he hopes trade negotiations with the United States can be concluded by the end of the year, provided Congress cooperates. (3)

**Moscow elections**

Elections to Moscow City Duma’s 35 seats will be held on December 4. These elections assume added significance in light of the fact that the City Duma will be responsible for appointing the next mayor of Moscow. The incumbent, Yuri Luzhkov, is standing for election to the City Duma and will be stepping down as mayor.

The City Duma elections are set up similarly to the old State Duma elections that were replaced earlier this year. Twenty seats are elected on the proportional representation system, while 15 are chosen on the basis of single-mandate districts. There is a 10 percent threshold (of the vote) for participation in the distribution of proportional representation seats. This threshold has been
criticized by the Central Electoral Commission Chair Aleksandr Veshnyakov because it contravenes a federal law stipulating that regional legislatures have thresholds for participation not exceeding 7 percent. The “against all” option has been removed from the ballot this year. Additionally, the city Duma must be composed of at least two political parties by law, even if the second party fails to clear the threshold for participation. The minimum voter turnout has recently been lowered from 25 to 20 percent.

The dominant party in the elections is United Russia. Yuri Luzhkov has teamed up with the favored party and will lead its party list. The Communists, the political party that historically has the strongest base, tends to perform less favorably in Moscow. It is stronger in the regions and among certain social groups, such as the pensioners. The liberal parties, on the other hand, receive more support in Moscow and Saint Petersburg than they do regionally and can be expected to clear the threshold, something they may not be able to do when it is time for elections to the State Duma.

The liberal parties Yabloko and Union of Right Forces (SPS) are contesting the elections jointly under the Yabloko name. Yabloko has not placed its more notable members such as Grigori Yavlinsky at the top of its list. Instead, the combined Yabloko party has decided, according to Nikita Belykh, head of SPS, to rely on “current members of the Moscow City Duma, who can and will work professionally in the City Duma, while Grigori Alexeyevich and me would act as agents. That is, we would be able to take part in debates, speak about this campaign, thus giving it federal significance.” (4) This decision may hurt the group that has been cobbled together to contest the elections, since it has typically been the name recognition of politicians that has drawn support in Russia, rather than a particular party platform.

Source Notes:
Russian Federation: Armed Forces

By Marcel LeBlanc and Jeffrey Butler

**INTERNAL**

**Military industry: exports, imports and the future**

The Russian arms sales sector complex continues a strong push for export markets as it fights for survival. Russian military hardware and services have been displayed prominently in military exercises and trade shows with the aim of generating business. The aviation industry received a boost following the Peace 2005 joint military exercises as China placed an order for nearly 40 Russian air lifters and air-refueling tankers worth over one billion dollars. (1) In addition, the MAKs 2005 Air Show near Moscow provided the opportunity to view virtually every available Russian fighter including the experimental SU-47 fifth generation fighter. (2) Russian naval exports are also expected to rise in the near future as Asian and Middle Eastern nations upgrade their navies. The 2nd International Naval Systems Show (July 2005, St Petersburg) was considered particularly successful as several contracts for Russian submarines and warships are expected from China, India, Indonesia, and other countries. (3)
In general, Russian military exports have increased in the last few years as global arms sales have increased worldwide. The United States remains the largest arms exporter in terms of net sales, with Russia coming in second with well over $5 billion in sales in 2004 and nearly $6 billion expected in 2005. China and India represent eighty percent of Russia’s export market, and the defense industry is reaching out to potential new markets in virtually every corner of the globe in order to increase revenue. (4)

Funding for defense procurement is also slated to increase in 2006. Nearly $6 billion is budgeted for defense procurement, which would result in a rare balance, with the defense industry potentially receiving as much funding from the Ministry of Defense and is does from foreign customers.

The numbers don’t always tell the whole story
Despite the recent increase in exports and domestic funding, Russia’s military industrial complex remains in a state of significant distress. The privatization plans of the past decade were unmitigated failures. Unscrupulous and unsupervised government officials and investors raided military industries during the shock therapy of the 1990’s. (5) Even today nearly one third of defense industries is bankrupt with most others in poor financial straits. (6) Labor issues in the defense sector abound with fears of strikes and labor demonstrations imminent. The low wages and disorganization of the defense industry is depleting the workforce of talent. Experienced workers are leaving for greener pastures and young replacements are not forthcoming. For example, the average age of the defense sector worker is reported to be 54, with specialists even older at 57 years old. (7). Combined with Russia’s already grim demographic trends and population loss, the aging of the defense industry workforce will be difficult to correct considering the low wages and profit margins.
The planned consolidation of the defense industry constitutes a move in the right direction; however, the record of past performance for instituting defense reforms is not encouraging. Plans to merge various aspects of the defense industry into large holdings with government oversight are preferable to the free for all currently in existence. Some of the benefits of this plan are to increase oversight for effective regulation and streamline operations to increase efficiency. (8) Unfortunately, there is still too much resistance to change and not enough urgency to engender genuine optimism. Progress on previous reforms has been tortuously slow. For the period of 2002 until 2004, only three of the 75 planned integrated business structures were completed. (9) Moreover, many of the legacy companies are hesitant or financially unable to downsize and modernize their Soviet-era facilities which leads to continued inefficiencies. (10)

Aside from labor unrest and poor organization, the defense industry also suffers from a tenuous relationship with the Ministry of Defense. The bottom line is that much of the money earmarked by the MoD never reaches industry. (11) In October 2005, a new organization, the Federal Defense Order Service, was established to be the single monitor for defense contracts. Prior to this, accountability for funds and product delivery was highly decentralized in the government leading to a corrupt system with a well known legacy of bribes and embezzlement (12).

Transparency is not an adjective usually associated with Russian defense spending, however, sources estimate that of the approximately $6 billion allocated for procurement, $3 billion goes to nuclear forces, and the rest is distributed thinly to the rest of the defense industry, supporting conventional forces and space. (13) There is little tangible return for this investment as only 30 tanks and seven aircraft were delivered to the MoD in 2004, and the vast majority of product generated by the defense industry is sent overseas (14). Corruption, mismanagement, and a lack of consistent funding apparently
conspire to squander the MoD's investment in modernizing the conventional forces.

The international arms market has been the best source of revenue for the defense industry in the past few years, but the long term outlook is cloudy. China and India account for the vast majority of Russian defense exports, and both countries will diversify their arms imports in the future. China is actively courting European Union countries to acquire technology not available from Russia, and it is possible that the EU arms embargo on China may not continue much longer. (15) China also has shrewdly acquired licensing rights for much of the imported Russian technology and is in the process of nurturing its indigenous defense industry (16). India also is diversifying its arms sources and recently received approval to consider U.S. and European fighters in an upcoming bid to purchase replacements for its aging fleet of Russian fighters. (17) The failure of the Russian defense industry to modernize and keep pace with the revolution in military affairs already is having a negative impact and will steadily devalue their arms relative to other competitors.

The plight of the defense industry has not gone unnoticed by Russia's military leaders. Senior ranking officers in all of the service branches are alarmed by the "permanent under funding of the country's defense requirements." (18) The commander of Russia's Space Forces commented on defense funding: "There has been an increase in budget funding Š but if you consider the growth of inflation, then this is, rather, horizontal development." (19) In other words, there is enough money to keep the establishment from falling apart in the short term, but not nearly enough funding and priority to effect genuine reform and restructuring for long term health.

**Conclusion**
The defense industry continues to struggle in an effort to restructure and modernize its operations and technology. Meager funding from the Ministry of
Defense has contributed to failure, as has the inability to remold the expansive Soviet-era defense industry into a smaller, more efficient enterprise suited for the Russian Federation. Current promises to reform the defense industry and provide more funding appear to be more talk than action and do not bode well for true change and improvement. The critical issues of the 2008 elections have captured the attention of Putin and other civilian elites which has led to a de-emphasis on military reform.

The declining competitiveness and desperation of the Russian defense industry will increase pressure sell ever more complex and controversial arms to legally (and illegally) to countries such as China, Iran, Syria, and North Korea where western competition is curtailed by legal or ethical constraints.

Source Notes:

(1) ³Military-transport aircraft will cost China a billion dollars,² Gazeta, 9 Sep 05, WPS via ISI Emerging Markets.

(2) ³Unexpected success of the MAKS-2005 air show², RIA Novosti, 22 Aug 05 via ISI Emerging Markets.

(3) ³Defense Industry Boosts Naval Exports,² Rossiiskie vesti, No. 33, 26 Sep 05, WPS via ISI Emerging Markets.


(5) ³Russian defence industry privatization damaged national security,² Krasnaya zvezda, Moscow, 24 Dec 20; BBC World Wide monitoring via Lexis-Nexis.

(6) ³One-third of Russian defense enterprises are broke,² RIA Novosti, 29 Jul 05 via ISI Emerging Markets.

(7) Ibid.

(8) ³Consolidated Aircraft Company: Pros And Cons,² RIA Novosti, 29 March 05 via ISI Emerging Markets.
EXTERNAL

Joint naval forces in the Caspian

In a televised briefing on October 24, Russian Minister of Foreign Affairs Sergei Lavrov and President Vladimir Putin discussed their desire for a joint Caspian Sea force. (1) This very public brief signaled Russia’s commitment to an idea that Russian officials have been promoting for almost a year. What Russian leaders envision is a joint naval force that would provide protection against terrorism and trafficking in arms, narcotics and weapons of mass destruction (WMD) in the Caspian region. (2) Comprised of navies from the five states bordering the Caspian, this joint naval grouping would be called CasFor for short.
Although the threats CasFor would conceivably face are legitimate, they are not new. In fact, until this year, Russia seemed content to address these threats with the status quo of forces in the Caspian. However, when U.S. offers to modernize the Azerbaijani and Kazakhstani navies foreshadowed change in that status quo, Russia’s leaders responded with a vigorous promotion of CasFor. If it is made a reality, this joint naval force will not alter naval capability in the Caspian, but it will affect the interests of Russia, Iran, and the United States.

The Caspian: current issues, status of forces
The Caspian Sea covers an area nearly the size of California and it touches the shores of five countries: Russia, Kazakhstan, Turkmenistan, Iran, and Azerbaijan. Although it is termed "landlocked," this body of water is accessible via a canal linked to the Black Sea. However, its significance lies in large deposits of oil and gas beneath its waters (20 to 40 billion barrels of proven oil reserves) and in its usefulness as a route for trade - both legal and illegal - between its five border countries. Because these five border countries cannot agree on whether the Caspian is a sea or a lake, they have interpreted international law differently when divvying up the Caspian’s valuable resources and trade routes. At present, only Russia, Azerbaijan, and Kazakhstan have reached consensus. A joint naval force headed by Russia would help them to solidify their control of the Caspian – regardless the outcome of the sea-or-lake issue.

Since 1992, each of the Caspian’s border nations has been represented by some form of flotilla. For Russia, Azerbaijan, Turkmenistan, and Kazakhstan these flotillas were born of a re-distribution of ex-Soviet assets that left Russia with the largest fleet, Azerbaijan a distant second and both Kazakhstan and Turkmenistan with only honorable mention status. Meanwhile, Iran focused on its navy in the Arabian Sea, leaving only a small presence in the Caspian -- some patrol boats and a minesweeper based at Bandar-e Anzelli. When compared to navies in similar bodies of water, like the Black Sea for example, the
five Caspian flotillas were below average in numbers and strength. Still, these flotillas matched the threat presented by smugglers, illegal trade, and other criminal activity. More importantly, Russia was happy with its position as the sole influence in the region. In fact, in 2003, it did not envisage any kind of new military presence in the Caspian. However, the Russians would change this thinking less than two years later.

**Russia's newfound Caspian Sea desires**

When the United States expressed interest in upgrading both the Azerbaijani and Kazakhstani navies in 2005, Russia began to express publicly its desire for a joint naval force in the Caspian. In April sources at the Russian Defense Ministry leaked plans for the development of a rapid reaction force to be deployed to the region. Most telling in this report was mention of Russia’s expressed intent to forbid the presence of other countries’ armed forces in the region – countries that do not have direct access to the sea. (8) This theme would be repeated over the next six months as Russian naval commanders and political leaders continued to lobby for CasFor.

The pace of Russia’s CasFor campaign accelerated in July when Russian delegates chaired an unofficial conference with representatives from each of the five Caspian states. The conference broached the subject of forming a joint naval group in the region, and it laid the groundwork for further discussion in the fall. (9)

In October, diplomats expanded on the navy’s efforts. First, at an October 6 meeting ostensibly to discuss the Caspian’s legal status, Russian ministers spent significant effort promoting the creation of a unified naval operations group in the Caspian. (10) Second, during visits with Turkmenistan President Niyazov and Iran’s Minister of Foreign Affairs Mottaki, Russian Foreign Minister Lavrov seemed to garner more support for a CasFor concept. (11) But, diplomatic and
military efforts notwithstanding, Azerbaijan, Kazakhstan, and Iran still needed more coaxing.

**Courting Azerbaijan, Kazakhstan, and Iran**

Azerbaijan turned down offers to participate in CasFor. In fact, Azerbaijani representatives revisited Russia’s 2003 theme of *demilitarization* of the Caspian. (12) Azerbaijan’s stance likely had roots in the (U.S.) $30 million spent by the United States to upgrade radar facilities on the Azerbaijan coast (strategically located near Iran’s border) and to repair ships and train personnel in the Azerbaijan Navy. (13) Even though this U.S. assistance to Azerbaijan did not threaten Russia’s naval dominance among Caspian flotillas, it could challenge the Russian government's regional influence. By promoting CasFor to the Azerbaijani's, Russia seeks to re-capture that influence.

In conjunction with offers to Azerbaijan, the U.S. also has made non-specific offers to modernize Kazakhstan’s navy. (14) Consequently, Kazakhstan seems as hesitant about CasFor as Azerbaijan does. It is notable also that Kazakhstan’s Caspian flotilla is far behind Azerbaijan’s in capability, so, as far as the Russian Navy is concerned, any *modernization* the U.S. undertakes for Kazakhstan would have less effect than would an upgrade of Azerbaijan’s force. This is further evidence that Russia’s desire to join naval forces with Kazakhstan is more political than military.

Iran is a different story. Of the five Caspian flotillas, Iran’s is the fourth largest, with just a few patrol boats and a minesweeper. Nonetheless, Putin made a specific effort to include Iran in CasFor. (15) Although Iran has supported the concept only with trepidation, Russia continues to press for its cooperation. Again, like that of Azerbaijan and Kazakhstan, an Iranian flotilla would not add much capability to CasFor. Yet the Russians remain committed to the CasFor concept, even going so far as to bundle Iranian participation with the push-button issues of arms sales and nuclear non-proliferation compliance (or
noncompliance). (16) Given the current state of U.S.-Iran relations, Russia’s overtures seem unnecessary. Still, Iranian President Ahmadinejad recently expressed support for Russia’s Caspian Sea philosophy, and thereby rewarded Russia’s persistence in the matter. (17)

**November and beyond**

A working commission on CasFor will meet in Moscow on 22 November. (18) The goal of this commission will be to flesh out the details of the proposed joint naval force. Given the status of the other four flotillas, there is no doubt the Russian navy would comprise the bulk of CasFor – in equipment, personnel, command and facilities. Most importantly, the Russians have stated already and will continue to pursue aggressively their goal of maintaining regional security without involvement of armed forces of third countries.² (19) To accomplish this, Russia will need Azerbaijani and Kazakhstani compliance, at the expense of U.S. interests and commitments. To entice Iran, the Russians likely will continue their carrot² approach by promising to improve Iran’s Caspian fleet through arms sales and by offering to act as Iran’s mediator in the international arena. If the five Caspian players agree on Russia’s CasFor proposal, the formal naval balance in the Caspian would remain unchanged while, by excluding the U.S., the Russians would tilt the strategic balance strongly in their favor.

Source Notes:

(1) ³Russia Pressing for Exclusionary Naval Grouping in Caspian Sea,² Interfax, 25 Oct 05 via Eurasia Daily Monitor (EDM), Volume 2, Number 198.
(2) Ibid.
(3) Via www.globalsecurity.org/military/world/russia/mf-caspian.htm.
(5) Via www.globalsecurity.org/military/world/russia/mf-caspian.htm
NEWLY INDEPENDENT STATES: CAUCASUS

By Kate Martin

AZERBAIJAN

Trouble with a capital T, that rhymes with V, that stands for Voting

It’s not easy to be Azerbaijan President Ilham Aliyev – there are crowds protesting in the capital, even when you tell them not to; there are international observers decrying “excessive force” used by police against those disobedient demonstrators; no one will help you arrest a political rival with substantial support among the populace; and there’s the specter of a coup plot running, apparently,
rampant, throughout your administration. In the run-up to the November 6 parliamentary elections, what's a president to do?

Well, this president is going to offer the Azeri people firm words about the need for democracy, some bland reassurances that innocent people were not beaten by police and security officers, and a last-minute change of heart about allowing observers into Azerbaijan.³ We want our country to become more democratic and our society to become freer. In this light, free elections meet everyone’s interests,² Aliyev said. (1) He also called for lifting the ban on having observers from non-governmental organizations (NGOs) with more than 30% foreign involvement; the late date of the introduction to parliament of the necessary amendment, and parliament's acceptance, presumably will preclude many NGOs sending in teams, however. (2) Still, the Parliamentary Assembly of the Council of Europe did announce that it will send 47 observers. (3) That should make everything better.

Unless, of course, you are one of the hundreds who massed on the streets of Baku in any number of protest rallies in October, culminating in mass arrests on October 17. On that day, supporters of the Democratic Party of Azerbaijan were arrested, and police reportedly beat on a car after a bunch of carnations was thrown from it. (The ³Red Revolution²?) Moreover, several hundred internal troops were deployed across Baku international airport, (4) in response to expectations that Democratic Party chairman (and former parliamentary speaker) Rasul Quliyev, who is serving as a lightning rod for opponents to Aliyev’s government, would be returning to Azerbaijan. Baku has charged Quliyev with embezzlement of state property and placed him on an international wanted list; however, a Ukrainian court determined there was insufficient evidence to warrant his extradition to Azerbaijan. (5) Interestingly, both the government and Quliyev want him back in Baku, but under vastly different scenarios – Quliyev is seeking a parliamentary seat (with parliamentary immunity, of course), while Baku wants him jailed.
Yet recent actions by Baku appear to be fanning the flames of opposition, rather than quelling them. Reports were issued on the arrest and beating of Quliyev’s lawyer, Samo Arif, and parliamentary candidates Akif Soltanov and Novruz Salahov; the kidnapping of relatives of Quliyev; and the detention of parliamentary candidate (and party deputy chair) Sovkat Balayeva, newspaper editor Aydin Quliyev and other party activists. (6)

International condemnation to earlier suppressions of rallies and the October 17 sweep was widespread and clear – Max Boot, the chairman of the U.S. Council on Foreign Relations, told a conference in Baku that the U.S. condemned the use of police against the protesters, and placed high importance on guarantees of democracy in the upcoming elections. (7) Several days later, the head of the Organization for the Security and Cooperation in Europe (OSCE) mission in Baku, Maurizio Pavesi, asked Baku to explain the necessity of operations carried out by security forces in order to avert a further aggravation of the already tense political atmosphere in Azerbaijan. Š We are concerned about the growing rate of violence, the unmotivated and exaggerated use of force against demonstrators, arrests and detentions.² (8) The European Union praised the president’s resolution to open up the election to observers but noted the belated² nature of that resolution as well as its deep concern about the mass arrests and the excessive force used by police against opposition supporters. (9)

And yet, police in Baku reportedly detained another several dozen participants of an unauthorized rally of hundreds of protesters held by the opposition alliance Azadlyg (Freedom) – consisting of the Democratic Party, Musavat and the Popular front of Azerbaijan – on October 23. Police Chief Yashar Aliyev told reporters that violence was not used, and that the police acted in a civilized manner.² (10)
Being (or having been) in the government is no protection from legal action either, it seems: the Aliyev government and security services rounded up several ministers and former ministers in one week, charging them with planning a coup. The former Minister for Economic Development, Farkhad Aliyev, was detained on October 20, along with his brother, Rafik, the director of the AZPETROL company. (11) So was Health Minister Ali Insanov, who had been first relieved of his duties. (12) Charges were pending against the newly dismissed Labor and Social Security Minister, Ali Nagiyev, Education Minister Misir Mardanov, and presidential property manager Akif Muradverdiyev. (13) The alleged coup planners were colluding with Quliyev, the prosecutor general’s office charged. (14) And withdrawing from the parliamentary race did not protect the head of the state-owned Azerkhimia company, Fikret Sadykov, who was detained on October 23. (15) Sadykov, an MP, cannot be charged without parliamentary approval due to the immunity his position grants him.

Azadlyg has denied any plans for a coup, issuing a statement that the alliance has been using solely peaceful methods, relying on the constitution and other laws of Azerbaijan guaranteeing freedom of assembly.² (16)

What does this mean for democracy in Azerbaijan? It clearly has not developed into a fully functioning system as yet. And Ilham Aliyev, who basically inherited his position as president from his father, the late Geydar Aliyev, needs to review some basic Democracy and You manuals, to understand that sometimes, Change Happens.

**CHECHNYA**

**A role model for democracy? Not yet.**

Meanwhile, 367 candidates registered through October 22 for parliamentary elections that will be held in Chechnya on November 27. (17) Representatives of most of Russia’s national parties will be on the ballot, for party seats and/or single-mandate constituencies, including the United Russia party, Yabloko,
Rodina (Motherland), Right-Wing Forces Union SPS, the Communist Party, the Liberal Democratic Party (LDPR), the Eurasian Union, and the People’s Will party. The Republic Party, on the other hand, was excluded by the Chechen Electoral Commission because over 20 percent of the voter signatures on the registration forms were invalidated. (18)

A document issued by the Memorial Human Rights Center warns that, due to such problems as kidnappings, violence, security questions and law and order issues, the elections are unlikely to be "free and fair." Moreover, "the center is forced to say that these elections are not likely to be a step towards peace in the Northern Caucasus." (19)

Chechen President Alu Alkhanov said that the situation regarding security in the region is improving, and is "under the control of power-wielding structures." (20) And Chechen Interior Minister Ruslan Alkhanov reported that the "rate of solved acts of terrorism has more than doubled - over 65% of such crimes were solved in January-September 2005 as compared to 26% a year ago," he said. "Four hundred and thirty-one suspects on federal and local wanted lists have been found." (21)

However, others – notably, the Organization for Security and Cooperation in Europe (OSCE) – disagree. According to OSCE Chairman Dmitri Rupel, the group will not be sending observers to Chechnya for security reasons and for considerations related to freedom of access to polling stations throughout the republic. (22) An interesting response to such concerns came from the Interior Ministry spokesman, Ruslan Atsayev, who announced that almost all of the ministry’s personnel – and there are more than 15,000 individuals on the rosters – will be employed to guarantee security. (23). Ah, happiness really is a warm gun.

**GEORGIA**
Georgia turns to the West for help with breakaways

Having already passed a resolution demanding an increase in the effectiveness of the peacekeeping forces in the breakaway republics of Abkhazia, South Ossetia and Ajaria, the Georgian government is now requesting backup from the United States. The chances of success, however, seem slim. U.S. Assistant Secretary of State for European and Eurasian Affairs Daniel Fried told journalists that Russia should participate in the South Ossetian conflict settlement, where it can play a constructive role. Yet slim chances are still chances: Fried did not say that Russia has been playing a constructive role; merely, that it could play such a role. And consultations with the United States are ongoing, according to Separatist Conflicts Minister Giorgi Khaindrava.

Tbilisi certainly will not be getting any backing of its demand from Russia, which maintains its stand that only the well-coordinated functioning of the Joint Control Commission and the selfless contribution by Russian peacekeepers have kept the situation in the conflict zone under control, as Russia’s envoy to the OSCE, Alexei Borodavkin, explained. Borodavkin reiterated the oft-made claim that Georgia is the aggressor trying to provocatively alter the situation in the breakaway republics. And yet, the Russian chairman of the Joint Control Commission purportedly tasked with finding a solution to the conflict apparently sees only one solution: acquiescence by Georgia. Valeri Kenyaikin explained that, despite Tbilisi’s refusal to accept separatist South Ossetia’s independence, it was necessary to begin work on creating a zone of most favoured nation treatment. He seems to have difficulty comprehending that such an agreement would amount to de facto acceptance that South Ossetia was a separate entity – perhaps the Joint Control Commission needs a chairman who could see the conflict aspect of the conflict.

Alas, the charges that had been thrown Georgia’s way for nearly a month – that Georgia reacted to South Ossetia’s celebration of independence with mortar fire on the capital, Tskhinvali, on September 20 – was refuted by peacekeeping
investigators, but not by those originally making the claims, the South Ossetians and the Russians. Lieutenant Colonel Sergei Yantsevich, chief-of-staff of the Joint Peacekeeping Forces, said that a landmine planted in a booby trap, not mortar fire, caused the explosion in Tskhinvali. (28)

In the meantime, demonstrating a remarkable degree of political savvy, Tbilisi is working to avoid the creation of any more breakaway zones, out of financial necessity, a la Abkhazia, South Ossetia, Ajaria and Nagorno-Karabakh. The last TIA reported rumblings by the Armenian population in Javakheti that Georgian Armenians would work towards autonomy to regain control over the region in which they form a majority. (29) Giorgi Khaindrava, Georgian State Minister for Separatist Conflicts, reported that the government will actively encourage the return of Meskhetian Turks, who were deported in large numbers during the Stalin era from the region of Samtskhe-Javakheti. Khaindrava already has met with representatives of local Meskhetian Turk communities in Central Asia and southern Russia, and plans to visit similar groups in Azerbaijan and Uzbekistan. (30)

Source Notes:

(1) ITAR-TASS, Oct 25, 2005; FBIS Transcribed Text, via WNC.
(2) Turan, Oct 28, 2005; FBIS Translated Text, via WNC.
(3) ITAR-TASS, Oct 28, 2005; FBIS Transcribed Text, via WNC.
(4) Turan, Oct 17, 2005; FBIS Translated Text, via WNC.
(5) Interfax, Oct 20, 2005; FBIS Transcribed Text, via WNC.
(6) Turan, Oct 17, 2005, FBIS Translated Text, via WNC.
(7) Interfax, Oct 15, 2005; FBIS Transcribed Text, via WNC.
(8) Interfax, Oct 19, 2005; FBIS Transcribed Text, via WNC.
(9) Turan, Oct 29, 2005; FBIS Translated Excerpt, via WNC.
(10) Interfax, Oct 23, 2005; FBIS Transcribed Text, via WNC.
(11) ITAR-TASS, Oct 21, 2005; FBIS Transcribed Text, via WNC.
Newly Independent States: Central Asia

By Fabian Adami

Uzbekistan: Andijan 'trial' winds down & The crackdown continues
On 20 September, the trial of 15 'Islamic militants', accused of instigating the Andijan rebellion (in May of this year), began in Tashkent. All 15 defendants pleaded guilty during the Supreme Court's first session. (1) Events both in and surrounding the trial showed that the Uzbek government was using the process
for a wider, more sinister purpose—namely a lock-down of the country—than simply to establish the culpability of the defendants.

Two weeks before the trial started, President Islam Karimov initiated by decree a massive military call-up. Contrary to usual procedure, conscrits who had completed their required service would not be released, but would be posted to reserve units. Moreover, all citizens not immediately drafted by the call up but who were judged eligible for service would similarly be posted to reserve units. Finally, commanders were advised that for the foreseeable future, all units were to be kept "combat ready."

At the same time as its military was being placed on indefinite alert status, the Uzbek government also was carrying out a massive campaign against journalists and human rights campaigners, both Uzbek and Western, designed to discredit them and force them to flee the country. On 13 September, the government issued a statement claiming that the Western media were guilty of "unleashing an information war" against Uzbekistan. (2) Human Rights Watch in the same week reported that 15 rights activists had fled the country, while a further 11 had been arrested by the National Security Service. (3)

In presenting the government's case at trial, the Uzbek prosecutor painted a picture of a nation under threat. He alleged that the Andijan rebellion had been carried out by Islamic militants, trained by Chechens at camps in Kyrgyzstan, funded by the BBC, Radio Free Europe/Radio Liberty (as well as other media outlets) and by the U.S. Embassy in Tashkent. The aim of the alleged militants was to use Uzbekistan as a base for the creation of a world-wide Islamic caliphate. (4) The Uzbek government's argument seems to be that these threats serve ex-post-facto to justify its pre-trial actions, and to validate its actions against opposition figures and the media in the last few months.
On 22 October, Uzbek Security forces arrested Sanjar Umarov, leader of the Sunshine Coalition, a prominent opposition group. (5) Umarov is a well-known businessman, apparently with "ties to the west." (6) In June of this year, Umarov called on President Karimov to dissolve the cabinet and appoint new and "progressive" officials. He also stated that if the Sunshine Coalition could "win the people's trust," he might run against Karimov in Presidential polls slated for 2007. (7) Days before his arrest, Umarov apparently issued a statement directed at the Parliament calling for Deputies to begin talks with the opposition without Karimov's blessing if necessary. (8) At the same time, he sent an open letter to Russian Foreign Minister Sergei Lavrov (then visiting Uzbekistan), expressing the Sunshine Coalition's desire to resolve the current "political crisis" in Uzbekistan. (9) Press reports on Umarov's arrest indicate that he recently returned from a trip to the United States where he was seeking financial and political support for the Sunshine Coalition and its reform proposals. (10) Mr. Umarov is not the only opposition figure to have been targeted since the events in Andijan. Human Rights Watch recently was notified that Yelena Urlayeva, a senior member of the Free Farmers—a group also calling for economic and political reform was arrested in late August. An Uzbek court in closed session recently declared her insane. According to the sentence, Urlayeva is to undergo "psychiatric treatment," which will involve forcible restraint and the administration of psychotropic drugs. (11)

Government actions against the media have been equally effective: on 26 October, the BBC World Service announced that its Uzbek offices would be closed for the foreseeable future, and its correspondents withdrawn, as a direct result of a campaign of "harassment and intimidation," which have made it impossible for the organization to "report on events in the country." (12) Reportedly, the next targets are Deutsche Welle, and the Associated Press. (13) Taken together, the Uzbek government's actions amount to an attempt to purge the country of 'undesirable' influences.
Early in October, U.S. Assistant Secretary of State Daniel Fried held a series of talks with Karimov. Fried noted that unless the Uzbek government cooperated fully in all areas including democratic reforms, the U.S. would be forced to "draw conclusions." (14) On 26 October, during closing arguments, Anvar Nabiyev, Deputy Prosecutor took the death penalty off the table, instead asking the court to sentence each of the Andijan defendants to a 15-20 year prison term. (15) This move clearly represents President Karimov's attempt to step back from the brink in terms of relations with the United States. However misguided this belief might be, Karimov hopes that the fig leaf of leniency will prevent the United States from drawing "conclusions" and severing not only diplomatic, but also financial and military aid (not withstanding the imminent closure of K2) ties with his regime.

KYRGYZSTAN

Dance With The devil, and he won't let go!

In the last six weeks, Kyrgyzstan has witnessed the assassination or murder of two high-profile Parliamentary Deputies. On 21 September, Bayaman Erkinbayev, an ally of President Kurmanbek Bakiev, was shot and killed in Central Bishkek. Bakiev's reaction was to allege that Erkinbayev's murder had been possible only because the latter's bodyguards had been arrested by the Interior Ministry for unspecified reasons, making him an easy target. (16) The Interior Ministry's collusion in Erkinbayev's death meant, so claimed Bakiev, that "law enforcement agencies everywhere must be purged." (17) This statement, given Prime Minister Feliks Kulov's intimate relationship with the Kyrgyz Security Forces—has to be viewed as a direct attack on the Prime Minister. It seems possible that the Bakiev-Kulov rapprochement, formed in the immediate aftermath of Kyrgyzstan's Tulip Revolution might be coming to an end.

On 19 October, a riot erupted at Novo-Pokrovka prison near Bishkek. Inmates at the facility—one described as having a "strict regime"—were demanding improved
conditions. During the course of the riot, two prisoners were killed, allegedly because they were acting as informants for the prison warden and administration. (18) Rioting apparently became so severe that the guards were forced to leave the facility. The next day, rioting erupted at another prison—Moldovanovka—near Bishkek.

In response to this riot, the Kyrgyz government dispatched two officials: Parliamentary Deputy Tynchbek Akmatbayev (Head of a Parliamentary Committee on Defense and Security) and Ikmatulla Polotov (Head of the Main Penitentiary Department) to the jail to negotiate with the prisoners. When they arrived at the prison, their bodyguards, as is standard procedure under Kyrgyz law, surrendered their side-arms to prison guards. At this point, prisoners apparently overwhelmed the guards, seized the surrendered weapons, and took the two delegates hostage. (19) In the process of taking hostages, Akmatbayev was shot and killed, while Polotov was seriously wounded. In an attempt to resolve the situation, Prime Minister Feliks Kulov traveled to Moldovanovka, where he successfully negotiated Polotov’s release, as well as the surrender of Akmatbayev's body. Six days later, Polotov died of his wounds in a Bishkek hospital. (20)

Akmatbayev's death resulted in a series of protests in Bishkek. The protesters alleged that Kulov was responsible for Akmatbayev's death, and demanded his resignation. A central figure in the demonstrations was Akmatbayev's brother Rysbek. Rysbek Akmatbayev is a "legendary" figure in Kyrgyzstan. Allegedly a mafia "kingpin," Rysbek was a fugitive from the Akaev regime for several years. Facing murder, embezzlement, racketeering, kidnapping, and other assorted charges, he agreed to a deal with the Kyrgyz Prosecutor-General in the aftermath of Akaev's overthrow to stand trial. He was to be allowed to remain at large on payment of bail and on condition that he sign a pledge not to leave the country. (21)
Several disturbing details have emerged about Tynchbek Akmatbayev's death, and the resultant protests. First, one of the prisoners at Moldovanovka prison was a Chechen, Aziz Batukaev. Apparently, Batukaev had a long-running feud with Rysbek Akmatbayev, resulting from the latter's (alleged) murder of Batukev's brother-in-law in 2003. (22) As such, Tynchbek Akmatbayev's assassination carries all the "hallmarks of an underworld-related blood feud." (23) Secondly, the "protestors" challenging Kulov apparently constituted no-one but "friends and relatives" of the murdered deputy. (24) The anti-Kulov protests are placed in a whole new light, if viewed through the prism of serious allegations, which recently have arisen about the March revolution. According to Tolekan Ismailova, Head of Citizens Against Corruption, a Kyrgyz NGO, "funding from underworld figures" was central in bringing protesters to the streets of Jalal-Abad, Osh and Bishkek for the demonstrations and riots that caused President Akaev's downfall. (25) These allegations, if true would explain the new Kyrgyz government's readiness to release a figure (Rysbek Akmatbayev) widely portrayed as one of the country's most senior and powerful crime bosses.

President Bakiev's reaction to the anti-Kulov protests was two-fold. First, the President's criticism of the Security Services over Erkinbayev's death ceased. Instead, Bakiev stated that he fully trusted the Prime Minister and endorsed his continued service. (26) A day later, he met with Rysbek Akmatbayev and his supporters to promise a full investigation into the deaths at the prison. Upon receipt of this promise, Akmatbayev apparently agreed to suspend demonstrations pending the outcome of an inquiry. (27) The results of this inquiry are to be released on 15 November.

One of President Bakiev's central campaign promises was to end government corruption. Anti-corruption rhetoric has continued since the election, most visibly in his initiation of an inquiry into the Akaev family finances, and, for Western observers, in his September 16 speech at the High Level Plenary Meeting of the 60th Session of the UN General Assembly. (28)
If Tolekan Ismailova's allegations are true, Bakiev owes the Presidency to two fundamentally opposed parties—organized crime and the Security Services; effectively, he dealt with the devil. Kulov, as their former commander, commands the loyalty of the country's two most powerful law enforcement/security organs (the National Security Service and the Interior Ministry). Due to his position, Kulov is, if not in name then de facto, the person in charge of anti-corruption operations. It is because of his position that Akmatbayev's family is demanding Kulov's dismissal. Without Kulov's (and therefore the Security Services) support, Bakiev's position is untenable: it was only through the introduction of the Security Services that the government was able to restore order in the prisons, (29) and stop the rioting in the aftermath of the revolution. On the other hand, without the financial support of underground organizations, Bakiev would likely not have won the Presidency. Should either party remove its endorsement, Bakiev's Presidency would likely collapse. Given the current climate in the country, it is understandable that the President is attempting to play to both sides of the gallery. How this crisis is resolved by Bakiev—or whether it is taken out of his hands—remains to be seen.

Sources Notes:

(1) See ISCIP Analyst, Volume XI, Number 1 (20 Oct 05).
(2) Ibid.
(3) Ibid.
(4) Ibid.
(5) TCA-Uzbekistan, 26 Oct 05; The Times of Central Asia via ISI Emerging Markets Database.
(7) Ibid.
(8) TCA-Uzbekistan, 28 Oct 05; The Times of Central Asia via ISI Emerging Markets Database.
(9) TCA-Uzbekistan, 26 Oct 05; The Times of Central Asia via ISI Emerging Markets Database.
(12) TCA-Uzbekistan, 27 Oct 05; The Times of Central Asia via ISI Emerging Markets Database.
(13) Ibid.
(14) See ISCIP Analyst, Volume XI, Number 1 (20 Oct 05).
(15) TCA-Uzbekistan, 27 Oct 05; The Times of Central Asia via ISI Emerging Markets Database.
(16) "Prominent Kyrgyz Parliamentarian Shot Dead," 22 Sept 05 The Financial Times.
(17) Ibid.
(20) Kyrgyz Television First Channel, Bishkek, in Russian, 27 Oct 05; BBC Monitoring via ISI Emerging Markets Database.
(22) Ibid.
(23) Ibid.
UKRAINE

Kryvorizhstal: One large step forwardŠ and then?

The unquestionable success of Ukraine’s $4.8 billion auction of the Kryvorizhstal steel plant provided a much-needed boost to President Viktor Yushchenko last week. But by highlighting the potential benefits of reprivatization, the sale also could create problems for Yushchenko as his party prepares for March’s parliamentary elections.

The president has been under seemingly constant criticism over the last several months. This criticism particularly has swirled around the dismissal of the Yulia Tymoshenko’s government, charges that his aides were involved in corrupt activities (charges he strenuously rejects), and the dismissal of the Prosecutor-
General who had been assigned to follow-up on these charges. Even more, he has been accused of betraying the ideals of the Orange Revolution by signing a Memorandum of Understanding with his former presidential election opponent Viktor Yanukovich, and by holding a series of meetings with businessmen he accused during the presidential campaign of criminal activity.

But Kryvorizhstal’s sale – with a price that exceeded all expectations – marked a major coup, and signaled a break with previous privatization methods designed to benefit those well-connected to the government. The plant, which was previously handed to former President Leonid Kuchma’s son-in-law for just $800 million, was sold using the most Western of rules. Instead of a privatization arranged behind closed doors, or held under a system designed to favor one bidder, this sale was held live on three television channels using criteria approved by international advisors and organizations. Shell companies and off-shore bank accounts were disallowed. Specific payment, labor and capital improvement requirements were demanded. And a live auction on television illustrated that the highest bidder did, in fact, win. In every sense, the resale of Kryvorizhstal epitomized what the Orange Revolution was about; it went to the heart of protestors’ demands for fairness, truth and equality.

Even more, the sale represented the greatest success of the team that led the revolution. It was, after all, Yulia Tymoshenko’s government, with the support of Yushchenko, that so resolutely pressed for Kryvorizhstal’s return to the state and subsequent resale. Preparation for the live television auction was one of Tymoshenko’s last duties as prime minister. All channels will carry a live relay from the auditorium where an open auction will be conducted, where they will be raising cards, she said, and you will see what could have been done in our country [under President Kuchma]... if privatization had been at least 50 per cent honest. (1)
But, while Kryvorizhstal is a first, it is also a last. It is the last major project of the Yushchenko-Tymoshenko revolution tandem. And it is, according to Prime Minister Yuriy Yekhanurov, the last (and only) resale of questionably acquired state assets.³ There will be no reprivatization,² he said during one of his first public appearance after his appointment to replace Tymoshenko. (2) The statement was intended, no doubt, to reassure large investors who were unnerved by Tymoshenko¹s wide-ranging reprivatization plans. This lack of investor confidence contributed to a slowdown in economic growth, as did repeated attacks from those whose property was thought to have been improperly acquired.

However, righting the wrongs of the Kuchma administration was one of Yushchenko¹s promises during the protests that led to his current position, and removing what are seen as improperly acquired assets from ³oligarchs² remains popular in Ukraine. Suggestions from Yekhanurov that ³there will be a negotiating table² and ³there will be out-of-court settlements² may satisfy certain investors, but to many Ukrainians, these words may sound like euphemisms for ³back-room deals.² How to balance himself effectively between the concerns of those who supported him during the revolution and large investors – who are necessary for the growth of Ukraine¹s economy – is one of the most important challenges facing Viktor Yushchenko.

Tymoshenko, in her new role as Yushchenko¹s opponent, has made her position clear; her message remains the same as it was during the revolution. A statement released last week by her party reads,³ The Yulia Tymoshenko Bloc recognizes the inviolability of private property, but it will never recognize the inviolability of what was stolen.² Moreover,³ We denounce reconciliation between the government and oligarchic clans,² and ³We will not allow any individual approaches or amicable agreements that boil down to pure corruption.² The statement also called for the resale of the Nikopol aluminum plant, which was
ruled in court to have been illegally privatized almost immediately prior to Tymoshenko's dismissal. (3)

Yushchenko has shown little interest in "rocking the boat" by continuing with the Nikopol resale, or with the resale of other enterprises identified during Tymoshenko’s time as premier. He has been steadfastly supported in this position by Western investors and economic analysts who suggest that reprivatization causes instability in financial markets. In fact, it did in Ukraine, primarily due to a lack of a well-defined overall plan agreed to by all political forces involved. The number of companies to be reprivatized and the criteria for reprivatization were never clear.

However, these same investors and analysts overwhelmingly applauded the transparency and success of the Kryvorizhstal sale – a sale that was supported by all government officials, based on a clear plan for its disposition. One wonders, then, if a limited, well-defined and coherently articulated general resale strategy, to include the most egregiously privatized plants, would not be met positively in the end. Tymoshenko has signaled her support for such a plan and undoubtedly will push for it during the campaign.

Yushchenko’s response could effect significantly the outcome of the election. Currently, the Yulia Tymoshenko Bloc and Yushchenko’s People’s Union Our Ukraine are polling within three percentage points of each other – usually with Tymoshenko slightly ahead. As the two former Orange Revolution leaders battle, former presidential candidate Viktor Yanukovich has seen his Party of Regions move slightly ahead of both. His and Tymoshenko’s successes do not bode well for Yushchenko's chance of maintaining control of the government in April – when political reform will mean that the parliament, not the president, forms the majority of the cabinet.
The success of Kryvorizhstal’s resale must be applauded. But it highlights the need for Yushchenko to develop a plan to deal with questionably attained property that meets the demands not only of investors but also of his voters. Responding only to investors, or to oligarchs seen to be protecting their property, provides ample fodder for Tymoshenko. For her part, the former prime minister now may point to Kryvorizhstal as the primary evidence of the potential success of her privatization initiatives.

**Prime Minister Yekhanurov in the U.S.**

Ukrainian Prime Minister Yuriy Yekhanurov visited the U.S. on November 1 and 2. He was accompanied by Economics Minister Arseniy Yatsenyuk, as they attempted to tackle several extremely difficult issues in U.S.-Ukrainian relations.

First and foremost, Ukraine is looking for the U.S. to back its request to enter the World Trade Organization in December. The U.S. is one of eight countries still to sign necessary bilateral agreements with Ukraine, and privately, U.S. officials have been less than enthusiastic about Ukraine’s chances to win approval for WTO entry this year.

Officials point primarily to a lack of progress by Ukraine on the economic reforms necessary to meet WTO standards. These officials suggest that President Viktor Yushchenko has found it difficult since he came into office to win passage of necessary laws. Since the confirmation of the new government, this difficulty has risen to a level of near impossibility as Yushchenko’s always tenuous parliamentary support has fractured.

Even more, despite vigorous activity by the Foreign Ministry, and despite numerous statements from the president calling for support for Ukraine’s WTO entry, necessary legislation has received only limited attention from the new government and the parliament. While members of the previous government routinely attended parliamentary sessions when relevant bills were being
debated and routinely spoke to the press about the importance of them, the current government has not.

The president himself, however, recently increased his interaction substantially with parliamentary factions, and on November 1, the parliament approved two out of the eight bills that are absolutely essential if Ukraine is to have any chance in December. It was the first WTO-related legislative success since July, before legislators left for their summer recess.

Action on the other six necessary bills has been less of a success for the government, and does not bode well for the country’s WTO hopes. On 18 October, in particular, a bill that would eliminate the export duty on cattle and halve the duty on leather products mustered only 108 votes in favor out of the necessary 226. (4) The government apparently was not represented at the debate. The bill is being required by Australia and the U.S. before they will sign bilateral agreements on Ukraine’s WTO entry.

Many analysts suggest that even with more intensive lobbying, parliament would not pass all of the necessary bills this close to an election. (5) Regardless, this apparent lack of progress led WTO Director-Secretary General Pascal Lamy to suggest on 17 October, ³Neither Russia nor Ukraine will be able to complete all negotiations regarding entrance by the end of the current year. They should wait a bit.² (6)

Not only is Lamy’s statement disturbing because it seems to confirm that the country will miss an important Western integration target set by Yushchenko, but also because he seemed automatically to attach Ukraine’s entry to Russia’s. Joint entry of Ukraine and Russia next year, during which Russia will be given the opportunity to influence negatively Ukraine’s bilateral agreements in negotiations, would be both a financial and psychological blow to the country’s attempts to disentangle itself from Russia’s sphere of influence.
U.S. officials will need to decide if a political agreement allowing Ukraine to enter the WTO with conditions still to be fulfilled (as was done with China), would be more beneficial geopolitically than forcing Ukraine to wait to join the WTO with Russia. The former would go a long way toward influencing WTO officials like Lamy. Yushchenko and Yekhanurov obviously are hoping that U.S. officials will support just such a scenario.

Similarly, Yekhanurov continues to push the U.S. hard to fulfill its previous commitment to work with Ukraine to develop an alternative to Russian nuclear fuel.

The U.S. announced this year that it will not complete its funding for a major project designed to allow Ukraine to procure nuclear fuel from Western, non-Russian sources. The country currently secures about 50 percent of its electricity needs through its nuclear power plants. But the Soviet design of its plants has meant that the country has depended entirely on Russia for supply of its fuel; it has been unable to integrate the alternative composition of Western nuclear fuel rods into its reactors.

However, in 1998, to compensate Ukraine for its agreement to withdraw from participation in the construction of Iran’s Bushehr Nuclear Power Plant, the U.S. initiated a project to develop non-Russian nuclear fuel that would work in Ukraine’s plants. The project also was thought to have potential implications for other nuclear plants throughout the former Soviet Union.

In August of this year, Westinghouse inserted the first four of such nuclear rods into one of Ukraine’s nuclear reactors, and seems to have had some success.
At the time, the government announced that nuclear fuel diversification would allow Ukraine to develop far greater energy independence.

But the U.S. has removed the final funding that would support Westinghouse’s production of 42 additional fuel rods, in order to actually implement the project. In a letter that has recently been made public by the Action Ukraine Report, U.S. Energy Secretary Samuel Bodman wrote, "Reduced levels of funding to the International Nuclear Safety Program recently forced the Department of Energy to reduce the scope of its assistance work. The reduction impacted the Ukraine Nuclear Fuel Quantification Project and funding for the core reload is not currently available." (7)

The withdrawal of funding places the entire project in jeopardy, and could cause Ukraine, out of financial necessity, to abandon its nuclear fuel diversification plans. This would be more than a shame, as diversification of its nuclear fuel is the easiest and clearest method for the country to develop a limited level of energy independence. While development of new gas pipeline systems, and exploration of new oil sources, would cost billions of dollars, the final stage of Ukraine’s nuclear fuel diversification reportedly would cost $15 million and would have significant geopolitical implications in the region. The final cost would place the project’s total spending at $65 million. This means that without this final $15 million, the previous expenditures may have been in vain – a significant waste of U.S. funding.

In a letter to Deputy Secretary of State Robert B. Zoellick, Senator Arlen Specter wrote, "While I have significant concerns from a policy standpoint of prematurely terminating a commitment to an ally which took action at the request of our government in order to advance security in that region, I am additionally concerned over what appears to be substantial expenditures resulting in no final useful product." (8)
Specter’s letter and others like it from Ukrainian officials appear to have had no effect. Yekhanurov undoubtedly hopes that a discussion of this topic in person will produce better results. If not, Ukraine will be forced to backtrack on previous statements to Russia that in the coming years it would no longer need its nuclear fuel. While in Washington, Yekhanurov pushed for the U.S. to recognize Ukraine as having a market economy and for the abolition of archaic Soviet era trade restrictions contained in the Jackson-Vannik amendment of the 1974 Trade Act.

MOLDOVA

Everything old is new again

Moldovan and Transnistrian representatives sat down at the negotiating table last week for the first time in 15 months. And for the first time ever, they were joined not only by the OSCE and the so-called “guarantor” countries of Russia and Ukraine, but also by representatives of the United States and European Union. The negotiation format will now be called 5 + 2, because the U.S. and EU technically will take part only as observers. Before the talks, the OSCE suggested that the new scenario might provide a “fresh impetus for finding a lasting agreement.”

In reality, both sides in the Transnistria dispute seem more strident than ever, as the infusion of new negotiating parties seems to have led only to new vitriol.

Moldovan President Vladimir Voronin, who has strenuously objected to recent settlement proposals from Ukraine, preceded the negotiations with several hard volleys aimed at Russia, and obviously intended to undermine any potential support the U.S., EU or Ukraine might have for Russian propositions.

Voronin charged that his government had uncovered a major arms deal – presumably brokered by Russia – that provided Saddam Hussein’s Iraq with weapons produced in Transnistria. "We have sent to Russia a file with
documents on the directions of arms exports from Transnistria,² he said.
³According to the data available with us, 13 Transnistrian industrial enterprises
manufacture armaments continuously. We have a document from the
Presidential Office of Saddam Hussein's certifying that weapons from
Transnistria used to be imported to Iraq. Now we are scrutinizing this." (10) He
did not produce copies of documents or provide any further details.

Earlier, Moldovan officials had repeated previous charges that Russian weapons
and ammunition were being transported from Russia’s compound in Transnistria
to Chechnya and North Ossetia.

Voronin also suggested that a previous agreement in 2003 had been scuttled at
the last minute by Russian insistence on maintaining a military base in
Transnistria for 20 years. Even more, he charged that the leaders of the
breakaway region, including self-styled president Igor Smirnov, ³have their hands
steeped in blood.² He said his administration was in the process of completing a
list of Smirnov’s political opponents in Transnistria who have disappeared or died
mysteriously. (11)

Such accusations were made by Voronin in the past, but never in such an
unambiguous, forceful manner. This particularly strong response may be have
been provoked at least partially by the settlement plan recently offered by
Ukrainian President Viktor Yushchenko. Moldovan officials have complained that
this plan isolates them and largely gives in to many demands from both
Transnistria and Russia. In particular, the plan is silent on the removal of
Russian troops from Transnistria, and calls for elections ³soon² in the separatist
republic.

Such elections, held in what is recognized throughout the world as an unfree,
dictatorial atmosphere would do little, according to Moldovan officials, but
legitimize Smirnov's regime. The plan, which was rhetorically welcomed by
weary OSCE representatives, is likely providing significant impetus for Voronin’s increasingly forceful statements. (12) Isolation, after all, breeds either a fight for a staked position or a flight from it. Voronin obviously has chosen to fight. Given the opinion of Moldovan voters, he has little choice.

Russia and Transnistria, of course, reacted angrily to Voronin’s charges. Transnistria’s Vitaly Ignatyev called them groundless,² while Russian Defense Minister Sergei Ivanov said suggestions that Russia was transferring Transnistrian weapons to Chechnya were nonsense.² He said,³ “We are responsible for our military bases in the territory of the Dniester (sic) region. I want to stress that Russian weapons won’t be removed from the region.” (13)

That statement underscores the biggest issue faced by negotiators. Even though Moscow has signed numerous agreements to withdraw its troops and weaponry from Moldova, including several OSCE-brokered agreements, Russia has not fulfilled these commitments. Previously, its leaders presented a litany of questionable justifications to explain the delay in removal of troops. In recent months, they have abandoned all pretext and stated simply that the troops will not be withdrawn.

On 29 July, Russian Defense Minister Sergei Ivanov said,³ “Our troops will not be withdrawn from there until all of Russia's property is evacuated to the Russian territory.” Further, the troops, he said, are there under the mandate determined by the two sides of the conflict - Moldova and the [self-proclaimed] Dniester Republic.” (14)

In actuality, Moldova has said repeatedly that it does not want these troops – a fact that Russia must have understood when it signed an OSCE agreement to remove them. (15)
Regardless, Ivanov’s statement implies that the troops will not be removed until a full settlement on the status of the Transnistrian region and its property is reached. One can hardly imagine, Voronin responded, that a political settlement is a task for the Defense Ministry. (16)

Given everything, it is not surprising then that during the talks last week, little progress appears to have been made. The OSCE once again announced that it would not recognize elections to be held in December in Transnistria — in partial fulfillment, Smirnov has said, of the Yushchenko plan. Ukraine’s view on the elections is unclear, but any suggestion that the poll, held in what the OSCE has called an undemocratic environment, represents the will of the people would be a major blow to Moldova and future settlement talks.

Moldova and Transnistria also agreed to exchange information on troops and armaments by 1 December, and that Ukraine, Russia and the OSCE would develop a plan to monitor Transnistria’s military plants. If this were to occur, it would make a considerable contribution to calming tensions between Moldova and Transnistria over alleged arms production and distribution. Like all accords in this process, however, there is a long path between agreement and implementation; more often than not, implementation is never achieved.

Source Notes:

(1) UT1, 1800, 30 Aug 05; via ProQuest.
(2) Interfax-Ukraine, 1617 GMT, 9 Sep 05; via ProQuest.
(3) Timoshenko bloc demands re-privatization of ferrous alloys factory, 27 Oct 05; via Lexis-Nexis.
(4) Verkhovna Rada (parliament) of Ukraine, Roll call vote, Bill No. 7567, About export duty on live cattle and raw leather material, 18 Oct 05 via www.rada.gov.ua.
(6) ForUm, 1054 CET, 17 Oct 05.
(8) Letter of U.S. Senator Arlen Specter (R-PA), 12 Sept 05; via The Action Ukraine Report (AUR), Number 593, 31 Oct 05.
(9) "European Report," European Information Service, 28 Oct 05; via Lexis-Nexis.
(10) Infotag, 31 Oct 05; via The Moldova Foundation.
(11) Ibid.
(12) For details about, and analysis of, the Yushchenko plan, see Lynch, Tammy, "Yushchenko undercutting Moldova in Transnistria?," NIS Observed: An Analytic Review, 26 Jul 05
(13) Voronin accuses Dniester region of arms shipments to Iraq, ITAR-TASS, 29 Oct 05; via Lexis-Nexis.
(14) Moldova policy worsening Moldova-Russia relations-Ivanov, 29 Jul 05; via Lexis-Nexis.
(15) For background on Russia’s past commitments to withdraw troops and armaments, see Lynch, Tammy, "Nothing New for Moldova at Istanbul Summit," Behind the Breaking News: A Briefing from the Institute for the Study of Conflict, Ideology & Policy, Vol. 1, No. 4, 1 Dec 99.
(16) Interfax-Ukraine, 29 Oct 05; via The Moldova Foundation.

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