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Russian Federation: Executive Branch

By Susan Cavan

Structural fact and fiction
It seems clear that the details of the Russian presidential succession were worked out well in advance by the incumbent and his chosen heir. Nonetheless, overzealous supporters and stalwarts may have had an impact on the events as they have been unfolding and may continue to cause bumps along the Putin-Medvedev trail.

The most recent development reveals both prior planning and attempts to alter the game plan by well-connected, but outside influences. On April 15, President Putin accepted the leadership of the Duma's majority party. (1) "I am ready to take on the additional responsibility and to lead United Russia," Putin announced. He added three caveats to this decision: First, that in keeping with his sense that it would be "inappropriate" for a head of state to lead a party, his decision would not take effect until after Medvedev's inauguration, when Putin's presidential duties would end; second, that Boris Gryzlov effectively would lead the party's day-to-day activities; and, perhaps most intriguingly, that United Russia be reformed, including eliminating "those people who are simply there to pursue their selfish interests." (2)

To the first point, Boris Gryzlov recently gushed that both the current and imminent presidents could join United Russia, but this represented a reversal of his earlier comments, which suggested that as President, Medvedev would be commander-in-chief and a military officer, making him ineligible to join United Russia. (3) Nonetheless, Medvedev is unlikely to join the party, if not because it
would be "inappropriate," then because it would make him technically subordinate to Putin.

As for Gryzlov's continued leadership of United Russia's daily activities, this decision resolves, at least temporarily, a brewing ideological dispute in UR and simultaneously frees Putin to concentrate on the work of the Government.

Putin's third point presages a purging of the party rolls, perhaps through the rapidly multiplying corruption investigations. This suggestion of a cleansing of the party membership again highlights the issue of just who will be in control of the investigations – a struggle among apparatchiki factions that already has grown ugly and likely will grow more desperate until it is resolved. The process of purging the regional UR party rolls already has begun. While in some cases, it seems to be a question of expelling those who have not paid dues; in other areas, arrests and investigations go hand in hand with expulsion. According to Yuri Pronin, a political analyst in Irkutsk, "The process has already started in our region - and it sometimes involves using the law enforcement agencies." (4)

Putin's decision to head United Russia without tying himself to membership permits him room to maneuver in several directions. First, it distances Putin from the rank and file, particularly those that might get caught up in corruption chistki. It also allows him to remain above party politics, possibly opening coalition opportunities, which would enhance his already significant sway in the legislature.

In terms of the Putin-Medvedev diarchy, Putin has staked out both the governmental arm of the executive and the legislative branch. Any attempts by Medvedev to veer off a mutually acceptable course can be countered by a legislative override, or, in an extreme scenario, impeachment proceedings. Putin also will be able to block any attempt by Medvedev to oust him, and possibly his supporters, from the government.
It seems likely that Putin would have insisted from the outset on strong institutional checks on his chosen heir before throwing his substantial administrative resources behind that successor. Medvedev certainly would have been expecting this development. The question driving the mushrooming political rumors is what do Putin's and Medvedev's supporters anticipate gaining, or losing, in this transition.

One kinetic political football is the supervision and support of, as well as authority over Russia's regions. It appears that leaks, particularly from the "losing camps" around Putin (those who either supported a Sergei Ivanov succession or an extra-constitutional Putin third term) have focused on the creation of new regional administrative centers and a shift of authority over these units from the presidency to the prime minister and government. It is possible that the leaks are meant to stem the flow of "resources" and support from regional leaders from the outgoing president and his team to the incoming president and his officials. As yet, no definitive plan has been promulgated, and such a decision is unlikely before the inauguration of Medvedev, the selection of Putin as prime minister, and the publication of the new prime minister's plan for the government's structure. (5)

Despite the guarantees Putin may have built into the new system for himself, the status of some of the "clans" around him is unclear. Disputes that erupted last fall, most notably in the arrests of Federal Drug Traffic Control officers, including General Aleksandr Bulbov, and the arrest of Deputy Finance Minister Sergei Storchak, are still being engaged. In what was seen as an effort to save his own position, Aleksandr Bastrykin, the head of the Corruptions Investigation Committee attached to the Prosecutor-General, recently fired Dmitri Dovgiy, who headed up the investigations into Storchak and Bulbov. (6) This week, the lead investigator on the Storchak case (Storchak remains in custody until at least July 9th as investigators continue to gather evidence) asked to be released from his
work on the case, ostensibly due to a heavy workload. His request was denied.

(7) The arrests of Storchak and Bulbov, among others, are thought to have been instigated by officials associated with Igor Sechin.

Sechin is a close associate of President Putin's and is likely to move into a government position when Putin takes up the post of prime minister. What remains unclear is how many of Sechin's associates will be extended protection in the new Putin-Medvedev diarchy, and the stakes are remarkably high for individuals caught in this particular transition vortex: lengthy prison terms, state appropriation of assets, and threats of physical harm are all potential consequences.

Of course, the possibility of chastened and perhaps vengeful apparatchiki shuffled from the Kremlin Administration to the Government also represents a significant challenge to a Medvedev administration. President Yel'tsin set an important precedent when he consolidated control of the power organs under the Russian presidency. However, Putin is likely to retain significant cadres of security services personnel as advisers and associates; he also is likely to expand the government's remit beyond economic, financial and social policy. Having seasoned security veterans with grudges against members of Medvedev's administration could prove a Putin trump.

Institutionally, the judiciary would be the obvious branch to mediate any disputes that might arise between Medvedev's presidency and Putin's government and control of the legislature. However, the Russian judicial branch is perhaps the least powerful or reformed of any institutions in the post-Soviet period. In the end, court appointments, i.e. cadres, could decide everything...again.

Source Notes:
(1) There are increasingly vocal allegations of fraud in the Russian parliamentary and presidential elections. (See, for instance, "A perilous tale of 2 lions and lots..."
of jackals, by Aleksei Pankin, The Moscow Times, 22 Apr 08 via Lexis-Nexis Academic.) However, there seems little likelihood that protests will materialize, suggesting a general acceptance of the results.


(3) "No party membership for Medvedev," by Rustem Falakhov, RBK Daily, No. 65, 11 Apr 08; What the Papers Say (WPS), 14 Apr 08 via Lexis-Nexis Academic.

(4) "The clean out order applies to everyone," by Aleksandr Deryabin, Nezavisimaya gazeta, 23 Apr 08 via David Johnson’s Russia List (JRL), 2008-#80, 24 Apr 08.

(5) See, for example, "Who plenipotentiary representative will answer to," Vedomosti, 10 Apr 08; WPS, 10 Apr 08 via Lexis-Nexis; "Envoys to stay under presidential jurisdiction-Kremlin," Interfax, 11 Apr 08; Russia & CIS General Newswire via Lexis-Nexis Academic. It is worthwhile to note that even upon publication of Putin’s governmental structure, the document will remain simply paper until there is consensus about the real center of authority in the country.

(6) See The ISCIP Analyst, Vol. XIV, No.11, 10 Apr 08; "The elite are already lining up behind Dmitri Medvedev, which is putting Vladimir Putin is a state verging on hysteria," by Natalya Royeva, 31 Mar 08; www.forum.msk.ru via JRL 2008-#69, 4 Apr 08.

(7) ITAR-TASS, 23 APR 08 6:14 PM EST via Lexis-Nexis Academic.

Russian Federation: Domestic Issues and Legislative Branch

By Rose Monacelli

Russia’s dreams of space dominance hampered by present issues
With the succession process nearly complete and his own political role outlined, President Vladimir Putin now is concentrating on Russia’s technological performance by revamping the country’s flagging space exploration program. Putin’s announcement came a little more than a week after Russia’s Cosmonautics Day, which marked the 47th anniversary of cosmonaut Yuri Gagarin’s inaugural 108-minute space flight aboard the Vostok (East) 1, the first manned flight into space. (1)

This year’s Cosmonautics Day festivities centered on the unveiling of a monument to Laika, a stray dog that became the first living creature in space on November 3, 1957. Although Laika’s flight aboard Sputnik 2 ended a few hours after launch when she overheated, the flight proved that living creatures could withstand a space launch and weightlessness; the test allowed for modifications that led to the first successful manned space flight less than four years later. The bronze statue of a two-meter tall Vostok rocket with Laika perched on top sits in northwest Moscow near the Institute of Military Medicine. (2) The ceremony, which was televised nationally, featured well-known academicians who laid flowers on the monument and waxed nostalgic about Laika and other dogs used in the development of Russia’s space program, calling them “a friend of humans and ... easy to train.” (3)

In contrast to the celebration of Laika and Russia’s other past successes, the Security Council meeting focused on the future of Russian space exploration, outlining the developmental possibilities of the national space program until 2020. (4) According to Sergei Ivanov, First Deputy Prime Minister and head of Russia’s military-industrial development, all aspects of space activities were considered separately, including “manned space flights, defense security, socio-economic aspects of space activities, scientific and all ground-based related infrastructure, including the forthcoming Vostochny (Eastern) spaceport,” (5) which is scheduled to open by 2016, around the time that the International Space Station is decommissioned. (6) Construction of and support for the Vostochny spaceport,
scheduled to begin next winter, will necessitate the creation of an entirely new
city in the Amur region near the Russia-China border by 2016. (7) When
completed, the Vostochny space center will be Russia’s newest base for
launching manned and unmanned flights and will supplement and eventually
replace the Baikonur Cosmodrome in Kazakhstan, as well as Plesetsk, a
secondary station for unmanned flights located in northwest Russia. (8) Since the
collapse of the Soviet Union, Russia has been forced to lease the Soviet-built
Baikonur station from the Kazakh government for US$ 115 million per year. (9)

Ivanov also outlined his goal for the development of scientifically advanced
projects with commercial value, stressing that "the exploration of the near-Earth
space and nearest planets is not an end in itself for Russia." (10) Also present at
the meeting were members of the Russian Federal Space Agency (Roskosmos),
which has been criticized in recent months for allowing the program to become
merely a "space cabby" (11) in light of its reliance on revenue generated by
launching foreign satellites and allowing wealthy citizens and other countries to
purchase rides on Soyuz spacecraft, as well as several failed launches and the
stalled development of the GLONASS satellite navigation system. In response to
these accusations, Roskosmos officials countered that they previously had
outlined their own vision for the Russian space program until 2040, including a
three-stage expansion program for completing the Russian segment of the
International Space Station, improving the boosters and transport systems
currently in use, and conducting manned flights to the Moon and Mars, stressing
that their only impediment was a lack of necessary financial support from the
government. (12)

Such financial support may arrive sooner than expected, as President Putin
made it clear that the current focus on space program development may be just
one aspect of a larger initiative focused on economic development and
reestablishing Russia’s technological dominance, which has deteriorated as a
result of decreased funding by the post-Soviet Russian government. According to
Putin, Russia needs to expand its presence on the global market for space products and services and not rely as heavily on foreign satellites and equipment. To realize this goal, he set an April 24 deadline for the entire government to submit proposals outlining strategies to modernize the space industry as a whole. (13) However, as the 7 May inauguration date of President-elect Dmitri Medvedev approaches, it appears that any final decisions regarding the modernization of the Russian space program may become the purview of the new administration.

The recent malfunctioning and crash landing of a Soyuz rocket as it attempted to land last weekend, may prompt Russian authorities to consider shifting their focus from the future to a brewing crisis unfolding in the present. On Tuesday, 8 April, the 17th mission to the ISS left the Baikonur launch pad in Kazakhstan carrying the youngest-ever Russian crew and Yi So-yeon, a bioengineer who became the first ever South Korean astronaut after her government paid Russia $US 20 million for a seat on the flight. (14) There were no reported issues when the craft launched or when it docked with the ISS, but for the second time in a row and the third time to date, the Soyuz rocket experienced a less-than-perfect landing when it returned from space on 19 April in a “ballistic re-entry,” an unexpectedly steep descent into the Earth’s atmosphere that resulted in gravitational forces inside the capsule ten times stronger than normal to Earth. The malfunction also sent the spacecraft, which was carrying Yi and an American and a Russian astronaut who had been stationed on the ISS for six months, 260 miles off course, where it crashed in the desert and caught on fire. (15) According to Russian authorities, the three passengers were reportedly unhurt, but later reports from South Korea maintained that Yi was hospitalized after returning home. (16) International experts blame the crash on the failure of the Soyuz spacecraft’s autopilot, radio beacons and ground-based radar, the same systems that apparently failed in the October 2007 Soyuz landing and reportedly had been fixed.
To date, this latest mishap, its strong similarities to the last incident, and accusations of rushed production in conjunction with relaxed quality control standards have failed to persuade the Russian government to use a different model of spacecraft than the Soyuz. In fact, the firm recently was ordered by the Russian government to accelerate production to double the current rate. (17)

Source Notes:
(3) Ibid.
(5) “Putin to hold Security Council meeting on space sector issues,” ITAR-TASS, 11 Apr 08 via David Johnson’s Russia list (JRL), 11 Apr 08, 2008-#74.
(7) “Russia announces no more space tourists, new launch facility, new heavy-lift rocket,” IT Wire, 15 Apr 08 via http://www.itwire.com/content/view/17647/1066/. Last accessed 21 Apr 08.
(8) Ibid.
(10) Ibid.
(11) Ibid.
(12) Ibid.
(13) “Russia should promote hi-tech, not just space services – Putin,” Space Daily, from RIA Novosti, 14 Apr 08 via http://www.spacedaily.com/reports/Russia_Should_Promote_Hi_Tech_Not_Just_Space_Services_Putin_999.html. Last accessed 21 Apr 08.
(15) “Yi describes frightening return to Earth,” Associated Press, 21 Apr 08 via http://ap.google.com/article/ALeqM5jJitDZhZSzTx3L37XQOplAh8fGQD9068T9G0. Last accessed 21 Apr 08.
(17) Ibid.

Russian Federation: Security Services
By Fabian Adami

Gordievsky targeted?
For a number of years late in the Cold War, Oleg Gordievsky, a Colonel in the KGB, secretly worked for Britain’s Secret Intelligence Service. In May 1985, he was ordered to return to Moscow from London—where he had been the KGB’s Rezident, because he was suspected of treason. It is believed, but has never been proven conclusively, that Gordievsky’s cover was blown by CIA traitor Aldrich Ames. (1) British Intelligence Services succeeded in exfiltrating Gordievsky from the Soviet Union via Finland, and he was re-settled in Britain.
Since the end of the Cold War, Gordievsky has been a prominent commentator on Russia. He has been vocal in criticizing President Vladimir Putin’s rule, and was at the forefront of accusations against Russian Intelligence agencies over the death of Aleksandr Litvinenko in the fall of 2006. (2) During the past three weeks, it has emerged that Gordievsky himself may have been the target of an assassination attempt.

In November 2007, Gordievsky collapsed at his Surrey safe-house. He was taken to hospital, where he allegedly lay unconscious for 34 hours. After regaining consciousness, he was transferred to a private clinic, where he remained for two weeks. Gordievsky has claimed that he was “partially paralysed” (he retains no feeling in his fingers) as a result, (3) and that he believes he was given a “variant or derivative of thallium.” (4) According to Gordievsky, “rogue elements in Moscow” (5) hold an assassination list, which contains a number of targets including Boris Berezovsky, Litvinenko and himself. Who those “rogue elements” are has not been explained.

The Gordievsky story is not without twists: police in Surrey apparently found no traces of “poison or any other suspicious substance” in his body and claimed that he was being treated for “other medical matters.” After this was ascertained, the investigation reportedly was closed. (6) Gordievsky has alleged that the investigation was dropped as a result of a request from MI6, which wanted to “hush up the crime.” (7) Enquiries were only re-instituted, according to Gordievsky, as a result of “pressure by senior intelligence figures,” (8) and at the time of writing, the investigation by Special Branch is ongoing. Who ordered the investigation closed and then re-opened is not clear.

British officials attempted to handle the Litvinenko case in a non-political manner, claiming that the murder was an individual act of revenge, rather than a state sponsored assassination. In spite of that, Russo-British relations have deteriorated significantly – witness the recent furor over the British Council (see
previous ISCIP Analysts). Whitehall several weeks ago announced that Sir Anthony Brenton, ambassador to Moscow, would be replaced at the end of the summer, in a move possibly designed to rebuild trust with the Kremlin. (9) Given Britain’s desire to repair Russian relations, it would not be surprising if this new (possible) poisoning case were to be handled in an extremely cautious manner.

It is not at all inconceivable that Gordievsky would be targeted. Soviet/Russian intelligence agencies have a history of assassinating traitors and defectors. Nonetheless, any verdict or pre-emptive accusations must be withheld pending the investigation’s final results. If he indeed was poisoned it would raise the question whether anyone is safe, and of how assassins were able to gain access to an individual, who, considering his history, is almost certainly well protected. It would also make the idea of state involvement much harder to deny or to brush over.

Source Notes:
(1) “Former KGB Defector Claims He Was Poisoned By Russians,” The Guardian, 7 Apr 08 via www.guardian.co.uk/uk/2008/apr/07/ukcrime.russia?
(3) “Russian Defector ‘Survives Murder Attempt At His Surrey Safe House,’” The Sunday Telegraph, 6 Apr 08 via Lexis-Nexis.
(4) “Ex-Russian Agent: I was Poisoned Just Like Litvinenko,” The Daily Telegraph, 7 Apr 2008 via Lexis-Nexis.
(5) “Ex-KGB Officer Claims Poisoning,” The Moscow Times, 7 Apr 08 via Lexis-Nexis.
(7) “Former KGB Defector Claims He Was Poisoned By Russians,” The Guardian, 7 Apr 08 via www.guardian.co.uk/uk/2008/apr/07/ukcrime.russia?
Russian Federation: Armed Forces
By Lt. Col. Carol Northrup

Arms diplomacy in North Africa
Earlier this month, in a move to strengthen Russia's influence in the Middle East, President Vladimir Putin became the first Russian leader to visit Libya since 1985. Putin traveled to Tripoli at the invitation of Libyan leader, Muammar Qaddafi for two days of talks over 16-17 April. Arms, debt and energy dominated the agenda. More than ten agreements were reached during the visit, including a contract for Russian rail monopoly, Russian Railways, to develop rail service in Libya and a major deal between Russian natural gas giant Gazprom and Libya's National Oil Corporation to set up a joint oil and gas venture. (1)

An agreement on military cooperation also was signed, and Russia is hoping to finalize an arms deal worth 2 to 4 billion dollars. (2) Though details of the arms deal have not been confirmed, Russian business daily Vedomosti said last week that Russia wants to sell Libya SU-35 Flanker multi-role fighter aircraft, Tor-M2E short-range missile systems and a spare parts and maintenance service contract for Libya’s aging Soviet-era military hardware. (3)

Oil-rich Libya is a member of OPEC and earned more than $40 billion in oil and natural gas revenue in 2007. (4) The North African state was an important partner of the Soviet Union and a major purchaser of Soviet weapons in the 1980s. However, after the break-up of the Soviet Union and the imposition of
harsh UN sanctions on Libya, relations between the two states withered and arms sales came to an end. Even so, 90 percent of Libya’s current military equipment is Soviet made and any new arms deal likely will include modernization of these weapons. (5)

Libya slowly is being brought back into the international community after 11 years of stringent UN sanctions. The United Nations lifted sanctions in 2003, after Qadaffi agreed to terminate Libya’s nuclear weapons program, and Libya has been moving to strengthen its role in the region ever since. These efforts will be furthered by Libya’s position as a non-permanent member of the UN Security Council as of 1 January this year.

Since 2003, Libya, which is planning several large infrastructure projects, has been courted by Western companies hoping to win contracts; Great Britain, France and Germany all have negotiated large contracts since 2004. (6) At present, Qadaffi is taking advantage of international good will and seems to be seeking to balance current political and economic ties with alternative sources of international support. Russia has been trying to reestablish relations with Libya since 2000, but Libya apparently viewed Russia’s enthusiastic support of UN sanctions as a betrayal, and the road to a renewed relationship has been rocky. Last week's visit and agreements were the culmination of months of negotiations; Russian Foreign Minister Sergei Lavrov visited Libya last December to begin paving the way for the summit.

As part of the package, Moscow has agreed to write off more than $4.5 billion in Libyan debt in exchange for rail, gas and arms contracts. (7) The arms package is similar to the one negotiated with Algeria in 2006: Russia will agree to forgive Libya’s debt and in return, Libya agrees to purchase Russian arms at a sum that is at least equal to the debt’s value. This scheme so far has proven to be an effective way to promote Russian arms in markets previously held by the Soviet Union, but lost since 1991. According to Konstantin Makinenko, Deputy Director
of Moscow’s Center for Analysis, contracts signed with Algeria exceed $7 billion and Algeria has placed new orders worth several million dollars since the 2006 deal was signed, making Algeria’s stock of contracts twice the size of its previous debt. (8)

Russia also is moving to strengthen its influence in Egypt. In March, Egyptian president Hosni Mubarak traveled to Moscow to meet with Putin and President-elect Dmitri Medvedev. The primary items on the agenda were nuclear energy cooperation and arms sales. Egypt has announced plans to build eight nuclear power stations beginning in 2009 and is holding an international tender for a $1-1.8 billion reactor project. (9) French companies have been lobbying hard for the contract, but Egypt is hoping to make the price more attractive by opening the bidding to wider international competition. (10) During Mubarak’s visit the two leaders signed an accord on Russo-Egyptian cooperation in the peaceful uses of nuclear energy that enables Russia’s nuclear engineering company, Atomstroiproject, to compete for the tender. (11)

As part of the agreement, Egypt reportedly is demanding that Russia’s offer include the possibility of administering the full cycle nuclear process, including uranium enrichment, on Egyptian territory, (12) something no Western bid is likely to include. Russia has accepted the terms and agreed to compete for the tender. In return, Moscow has hinted that it expects Cairo to return to buying Russian arms. (13) Russia already has made several offers to Egypt for the sale of fighter aircraft and air defense systems, (14) but given the large amounts of US aid to Egypt ($1.8 billion in 2007) (15) and Washington’s opposition to Russia’s return to the Egyptian defense market, the Egyptian leadership might find that hard to do.

Arms sales and nuclear technology are both areas in which Russia can underbid Western counterparts and offer “more for less.” This provides prime opportunities for Russia to gain leverage with potential allies. In recent years, Russia has
trailed only the United States in the export of conventional arms, (see Analyst 10 Dec 07) and Moscow has indicated that it intends to stay at the top of the international arms market. In fact, Russian leaders claim that Russia’s production of conventional arms will double by 2015, (16) and President Putin repeatedly has proclaimed that Russia will not be constrained in this arena.

Russia has been striving to increase influence in North Africa since 2000 and has made significant inroads to this strategically important region. (In addition to the arms deals it has negotiated with Algeria, and recent deals with Egypt and Libya, the Russian government is currently in negotiations to help Morocco develop nuclear power capability.) Both Mubarak and Qaddafi are looking for ways to diversify political and economic ties and Russia is taking full advantage of this window of opportunity to counter US/Western influence and strengthen its role as an international power player.

Source Notes:
(3) Ibid.
(4) “Putin Seeks Contracts from Libya,” International Herald Tribune, 17 Apr 08 via Lexis-Nexis.
(5) “Arms for Qaddafi,” Russian Press Digest (Vremya Novostey, no 64, p. 2) 15 Apr 08 via Lexis-Nexis.
(6) “Putin Seeks Contracts from Libya,” International Herald Tribune, 17 Apr 08 via Lexis-Nexis.
During the last few months, Russia has addressed critically the possibility of NATO membership for Ukraine and Georgia. In mid-March, during a US delegation’s visit to Moscow, Foreign Minister Sergei Lavrov stated that NATO’s
expansion was reminiscent of the construction of “cold war blocs,” which would have a “destructive” impact on Russian-US relations. This viewpoint was reiterated by Lavrov days before April’s NATO summit in Bucharest, during an interview in which he claimed that Moscow would be forced to examine the “reliability of these partners” from the “security” perspective, were they to be admitted to the Atlantic Alliance. (1)

The NATO summit resulted in a partial victory for Russia, due to the fact that European members of the Alliance, specifically France and Germany, objected to Georgian and Ukrainian membership, largely on the grounds that Moscow should not be unnecessarily aggravated. However, membership for Georgia and Ukraine was not rejected, but rather will be reviewed in December 2008. (2)

Since the end of the NATO summit, it has become evident that Moscow remains deeply concerned about Georgia and Ukraine. Speaking at a conference at St. Petersburg University on the results of the NATO summit, Sergei Ryabkov, Director of the Russian Foreign Ministry’s Department of European Cooperation noted that “broad hints” in favor of membership for Ukraine and Georgia already had been heard, and that “the expectations of a whole group of NATO countries are obvious.” (3) If this were to occur, according to Ryabkov, “the conclusions of our country will be most far-reaching.” (4)

Two weeks ago, Ukrainian Foreign Minister Volodymyr Ohryzko traveled to Moscow for talks with Lavrov. Although the one-day visit was not conducive to a full exchange of views, Ohryzko apparently sought to convince Lavrov that Ukrainian membership in NATO would “in no way threaten Russia.” (5) Lavrov and Ohryzko agreed to hold in-depth consultations on the matter, which will “begin shortly.” (6) Ohryzko claimed that his visit was a success, because the Ukrainian team had “succeeded” in presenting its “point of view” about a number of issues. (7)
Ohryzko’s reaction to the meeting in Moscow, while possibly intended for domestic consumption, is clearly overly optimistic. Russia is intent on maintaining its pressure on Kiev, as demonstrated by the question of the Black Sea Fleet. During his visit, Ohryzko presented Lavrov with a memorandum on the removal, by 2018, of Russia’s Black Sea Fleet from ports in the Ukraine. Kiev apparently wishes to begin discussions now, on how the Russian Navy’s withdrawal is to be handled. The Russian Foreign Ministry’s reaction to this memorandum was to state that the matter was “not urgent,” (8) while Moscow’s Ambassador to Kiev, Viktor Chernomyrdin, argued that it was too “premature” to even discuss the question. (9)

After Ohryzko’s departure from Moscow, Lavrov, in a statement posted on the Foreign Ministry website argued that NATO had ignored the Ukrainian and Georgian peoples’ wishes on membership, and insisted that the alliance is trying to substitute the UN with its own structures: “this is either an attempt to form some new global union with a western core wishing to claim all but UN functions. Or—which is more likely—this is about the logic of bloc absorption of territory…first to mark it and then consider it its own.” (10)

Russia clearly is intent on maintaining its pressure on Ukraine and Georgia, albeit in different ways. In the Ukrainian case, Moscow likely believes that the threat of Russian military elements remaining on Ukrainian soil provides leverage. Tactics with regards to Georgia are different, but equally unsubtle: Russia, says Lavrov, must protect the rights of “Russian citizens” in Abkhazia and South Ossetia, so that they are not “subjected to provocations, and can freely communicate with Russia.” (11) Of course, Moscow unilaterally bestowed Russian citizenship on most Abkhazians and South Ossetians.

In Brief: Moscow’s ABM demands
During last month’s talks between Secretaries of State and Defense Condoleeza Rice and Robert Gates with their counterparts in Moscow, the US apparently
offered Russia the opportunity to verify that the planned missile defense system "does not work against" it and proposed that the "condition of an interceptor missile base to be deployed in Poland and the Czech Republic" could be examined by Russian officials. At the time, Lavrov welcomed these proposals, acknowledging that they amounted to recognition of Moscow’s concerns. (12) Now, it seems that simple verification and assessment are not enough for Moscow. On 9 April, Lavrov stated that Russian military officers should have a "permanent presence" at the proposed bases, as well as "secure means for technical monitoring." (13) Lavrov claimed that the US proposal provided for only temporary visits to the bases by officers stationed at the embassies in Prague and Warsaw—an idea that is currently unacceptable to Moscow. As of the time of writing, the Polish government already had effectively vetoed the idea of Russian observers on its soil (14), and it is therefore unclear, what the next step in ABM defense negotiations may be.

Source Notes:
(1) See The ISCIP Analyst, Volume XIV, Number 10 (27 Mar 08).
(2) “NATO Denies Georgia and Ukraine,” BBC News 3 Apr 08 via www.news.bbc.co.uk/2/hi/europe/7328276.stm.
(3) “Moscow Expects Ukraine, Georgia To Be Granted NATO MAP In December,” Interfax, 18 Apr 08; OSC Transcribed Text via World News Connection.
(4) Ibid.
(5) “Pragmatism Seen Guiding Principle in Russo-Ukrainian Foreign Minister Talks Yevgeni Shestakov Report: ‘We’re Talking About Mars: The Ukrainian Foreign Minister Has Promised To Be Pragmatic in Relations with Russia,” Rossiiskaya Gazeta, 17 Apr 08; OSC Translated Text via World News Connection.
(6) “Kiev, Moscow To Have Consultations On Ukraine’s Accession To NATO,” ITAR-TASS, 16 Apr 08; OSC Transcribed Text via World News Connection.
(7) Ibid.
Russian Federation: Energy Politics

By Creelea Henderson

Gazprom in Libya: Gas-OPEC on the horizon?

In April of this year, Gazprom closed a deal with Libya's National Oil Corporation to set up a joint venture to engage in both upstream and downstream oil and gas operations. (1) The Gazprom deal was part of a larger agreement signed by Russian President Vladimir Putin and Libyan leader Muammar Qaddafi, (for more on these agreements, please see Armed Forces section below) in which Moscow wrote off $4.5 billion in Tripoli’s Soviet-era debt in exchange for multi-billion dollar contracts with Russian companies, including Rosoboronexport and Russian Railways, as well as with Gazprom. (2) The deal, which appeared to be a replay of Moscow’s 2006 gas production agreement with Algeria, once again has raised concerns that Russia is seeking to create a gas cartel similar to oil-producing nations’ OPEC. (3) Evidence that Moscow is planning to head a gas cartel has been mounting, according to Igor Tomberg, an energy expert at the Institute of...
World Economy and International Relations in Moscow; he notes that Iran already has drafted a charter for the new organization that, if approved, would formalize the many cartel-type agreements that Russia has signed in recent years with other gas-producing nations. (4)

What would a gas cartel look like? Russia is already a member of the Gas Exporting Countries Forum (GECF), a little known and little understood organization made up of the national energy ministries of sixteen gas-exporting countries, accounting for about 40 percent of pipeline gas sales and over 90 percent of the total volumes of liquefied natural gas (LNG) sold in 2006. (5) It is not clear what constitutes membership in the GECF, since there are no statutes or charters, or membership fees, and not all members presently are exporting gas. (6) The forum was established in Tehran in 2001 with the general aim of generating “tangible cooperation among gas producing and exporting countries,” and in subsequent years, ministers have been at pains to emphasize that the club is not, nor is it intended to be, a “gas-OPEC.” (7) Nevertheless, analysts claim that the forum does not exist solely for the benign purpose of consultation with other energy industry players, but is instead an organization that is appraising the potential for its eventual transformation into a gas cartel capable of setting international prices for natural gas and dividing downstream markets between its member countries. (8)

Gazprom’s recent deals with GECF member countries—Iran, Algeria, and Libya—may portend just such a transformation of the forum, from a loose association of gas-producing countries into an “OGEC,” a gas version of OPEC, described by Daniel Yergin, an energy analyst and founder of Cambridge Energy Research Associates in Massachusetts, as an energy organization made up by a few countries that come to dominate the supply of natural gas and adopt policies reminiscent of the confrontational OPEC of the 1970s. (9) Signs that gas-producing countries are prepared to carve up the markets among themselves already are emerging. Encouraged by Vladimir Putin’s endorsement of gas
OPEC as “an interesting idea,” (10) Tehran has offered to re-orient its future gas exports to the east, supplying Pakistan and India via a new pipeline route, while Russia continues to dominate European markets to the west. (11) At present, a quarter of Europe’s natural gas comes from Gazprom, and Algeria supplies another 13 percent of Europe’s total gas needs. Libya is another important source of natural gas volumes for the European market, and, with Gazprom preparing to pipe natural gas from Libya across the Mediterranean to southern Italy, it is in a key position to increase Russia’s influence over Europe’s total energy supply further. “It is very important what Gazprom is doing in Libya and other parts of North Africa,” Tomberg, the energy expert in Moscow, said. “By diversifying its supplies and gaining even more access to European markets, geopolitically, it is surrounding Europe.” (10)

The expectation of a gas-OPEC, or OGEC, is perhaps premature. Certainly, the two organizations cannot be analogous, given the very different nature of the oil and gas industries. Until the introduction of LNG, natural gas was a local, national, or continental industry, limited by the reach of pipelines. Unlike oil, which is transported on huge tankers to international ports, gas had to be moved over land, through channels linking producers directly to consumers. This has meant that natural gas exporters are less responsive to shifts in price or markets, and contracts tend to be long-term—lasting from 20 to 25 years. (13) While LNG allows for greater flexibility of transport and delivery, it is also a much more expensive option: the cost to transport natural gas by tanker is around eight times that of transporting the same calorific value of oil. (14) In all its forms, gas is a capital-intensive industry that requires guaranteed downstream markets to justify huge investments in extraction upstream. There is little surplus capacity with which to manipulate markets, and the price of natural gas is generally indexed to oil prices, so that producers would be hampered in their efforts to set prices independently.
The most significant impediment to OGEC is Russia itself. With the world's largest reserves of natural gas, Russia is a titan among gas producers and it is highly unlikely that the country would consent to participate in an energy organization that it does not dominate. Gazprom’s deal with Libya points to a different model of cooperation among gas-producing countries, wherein Moscow uses political leverage—the ability to wipe out national debt, for example—to gain favorable concessions from less powerful countries and thereby to increase its share of the global natural gas market. The seventh Ministerial Meeting of the GECF will take place in Moscow this summer, and it remains to be seen whether Russia will throw its weight behind a cooperative cartel that might empower its fellow gas producers to act as its equals.

Source Notes:
(1) “Russia cancels Libya's $4.5 bln debt in exchange for contracts-3,” RIA Novosti, 14 Apr 08 via (http://en.rian.ru/world/20080417/105344656.html).
(2) Ibid.
(6) Notably, Iran, the country with the second largest proven gas reserves, is a net importer of gas, Ibid.
(7) Ibid.

Newly Independent States: Caucasus

By Robyn Angley

GEORGIA

Adjara, tourism, and foreign investment

Following the Rose Revolution and the subsequent successful ousting of Adjaran strongman Aslan Abashidze in May 2004, the Black Sea region of Adjara has been the scene of considerable change.

The first changes were political. Under the law governing Adjara’s relationship with the state, signed on 29 July 2004, the President of Georgia nominates the Chairman of the Government of Adjara. The nomination is subject to approval by the Supreme Council of the Autonomous Republic of Adjara, but that body can be dissolved by the president if it rejects his nominee twice. The chairman is responsible to the president of Georgia and to the Adjaran Supreme Council; however it is very clear that the Georgian president takes precedent. The chairman’s selections for the Government have to be vetted by “the officials of
proper authorities of the Government of Georgia” before they can be submitted to the Adjaran Supreme Council. (1) The Chairman is at least authorized to dismiss ministers. Neither the Chairman nor state ministers are permitted to engage in entrepreneurial activity or receive a salary other than the one they receive from the state with the exception of activity that could be considered academic research. (2)

Levan Varshalomidze is the current chairman of the Adjaran Supreme Council, as well as a National Movement candidate for the Georgian parliament. He was confirmed as chairman in July 2004, having served previously under the title of Envoy of the President of Georgia in the Autonomous Republic of Adjara since Abashidze’s ouster that May. (3) His educational background is in law, but he also has worked in business and, perhaps most importantly, was Chairman of the Executive Department at the Ministry of Justice of Georgia from 2000-2002 during current President Mikheil Saakashvili’s tenure as Minister of Justice. (4)

The secondary changes in Adjara have been physical. Adjara is experiencing a construction boom at the moment, as Georgia works to make it a thriving tourist center. According to the Department of Tourism and Resorts, Georgia anticipates that about 1.3 million tourists will visit the country this year, (5) many of whom will head to the Adjaran capital of Batumi on the Black Sea coast. Batumi is a destination for growing numbers of Turks, Armenians, Azeris, Ukrainians and residents of the Baltic states. (6)

The return of Adjara to the Georgian fold, coupled with its location on the Black Sea and an emphasis on the expansion of the tourist industry by the Georgian government, has led to a surge in investment in the region. Among those investing in the region are Kazakh businesses–$100 million in more than 20 hotels as of January 2006. (7) Additionally, the Kazakh state-owned gas company KazMunaiGas added the Batumi Sea Port and Batumi Oil Terminal Limited and Batumi Sea Port Limited to its holdings in January 2008. (8)
Turkish investment in Adjara also has been substantial; it was estimated at $250 million as of April 2008. (9) The total Adjaran state expenditure for 2008 is about 171 million lari (approximately $118.5 million), (10) making Turkish investment in the region more than double the entire state budget. In keeping with the flow of Turkish investment, Batumi airport recently was refurbished by TAV-Urban, a Turkish consortium, and now is considered for economic purposes as domestic Turkish airspace. (11) As a result, Batumi offers considerably cheaper flights to Turkey than from the rest of Georgia.

However, the increase in investment is not necessarily translating into jobs for the local population. Varshalomidze recently importuned the Georgian government to devise a program offering cheap credit to Adjarans, complaining that the recent flow of investment has not translated into more employment for locals. Even government positions are filled primarily by non-Adjaran natives. (12) Despite the massive investment in the Adjaran capital (or perhaps because of its failure, as yet, to translate into many new jobs), Batumi was the sight of an anti-Saakashvili demonstration numbering “several thousand” in October 2007, in the lead-up to the larger protests that took place in Tbilisi in November 2007 before being forcibly dispersed by the government. (13)

Tourism is anticipated as a major source of potential revenue by the Georgian government. One of Saakashvili’s most visible projects during his tenure, much derided by Georgians who think he should have other priorities, is the building of parks and fountains in many public venues. In theory, making public spaces attractive and investing in projects such as the refurbishing of Tbilisi’s Rustaveli Prospect add to Georgia’s potential allure as a tourist destination. More practically, Tbilisi billboards proudly announce several sites to be the future location of five star hotels, although how Georgia will find sufficient clientele to fill so many elite establishments is a bit unclear. Much investment also has been poured into the walled town of Sighnagi, in hopes of drawing tourists there by
pairing its location in the Kakheti region (renowned for its wine) with the attractive surroundings of its ancient walls and newly built shops. The Georgian government has invested roughly 10 million lari (around $6.9 million) into the project, with an additional 28 million lari (approximately $19.3 million) coming from private interests. (14) A simple stroll around Sighnagi reveals the impressive, if slightly artificial, restorative work that has been done. The town even boasts a tourist information center replete with glossy color brochures detailing Georgia’s scenic offerings.

Tbilisi’s attempts to capture investment in its tourist industry have been admirable and are part of the general crusade to attract foreign investment to Georgia. It may take time, however, for that investment to have a positive impact on the bulk of Georgia’s population, including the residents of Adjara.

Source Notes:
(4) Ibid.
Kyrgyzstan swaps land, favors for Kazakh grain and oil imports
At first glance, Kyrgyz President Kurmanbek Bakiev’s recent trip to Astana to attend the 7th meeting of the Kyrgyz-Kazakh Supreme Interstate Council
appears to have been a resounding success, garnering promises from the Kazakh government to supply 300,000 tons of oil annually to Kyrgyzstan’s refineries and to increase its investments significantly in Kyrgyz joint ventures (Kazakhstan already accounts for 50% of foreign investment in Kyrgyzstan). (1) During what was by all accounts a very cordial meeting, Presidents Nazarbaev and Bakiev also discussed making Kyrgyzstan a party to the Turkmen-Chinese gas pipeline project. (2) Furthermore, in a rather surprising, but very fortuitous turn of events, Kazakh officials agreed to provide a total of 350,000 tons of wheat to the Kyrgyz State Material Reserves Fund, in spite of a recent decision to ban all further grain exports. (3) Just two days prior to Bakiev’s arrival in Astana, Kazakh Prime Minister Karim Masimov announced that in order to protect domestic consumers, his government had decided to ban additional grain exports until September 2008, although flour exports would continue. Even though Kazakhstan had a record wheat harvest in 2007 and is Central Asia’s main grain producer, inflation rose to nearly 19% last year, mainly in response to a jump in food prices. (4) The Kazakh government’s willingness to make an immediate exception to its just announced grain export ban for a neighbor state, which likely is not paying market prices, is certainly a noteworthy development.

Astana’s apparent magnanimity may be a partial pay-off for the Kyrgyz parliament’s decision to ratify the Kyrgyz-Kazakh border delimitation treaty on April 11. (5) According to the treaty, Kyrgyzstan must relinquish a granite mine in Talas Province, the Karkyra area in Issykkul Province, as well as a section of territory near the river Chu to Kazakhstan. The Kazakh government also will be permitted to take out long-term leases on four tourist resorts on Lake Issykul, long one of Central Asia’s most popular vacation destinations. The parliament’s justification for this decision was that Kazakhstan had paid for the resorts’ construction in the years before the Soviet Union’s collapse. Kyrgyzstan will receive a section of territory in Chuy Province, which juts down into farmland belonging to the village of Stepnoe, forcing residents to travel far out of their way to reach their crops. (6) Although Bakiev’s government and supporters in
parliament are enthusiastic about the border delimitation deal, public sentiment is very much against it. Residents of Issykkul Province have formed the “Protection of Sacred Land committee” to lobby for the treaty’s reversal and are planning a march to Bishkek to protest against it, on the grounds that the treaty contravenes the interests of both the state of Kyrgyzstan and its citizens. (7) The treaty was first agreed upon between former President Askar Akaev and his Kazakh counterpart in 2001, but due to its unpopularity was never ratified by Kyrgyz legislators until this year. (8) The public’s dissatisfaction with the terms of the treaty is understandable, especially in Issykkul Province, where residents could stand to lose considerable income, depending on how the Kazakh government chooses to use the four resorts. Bakiev’s decision to lease the resorts to Kazakhstan does seems particularly odd in light of the fact that on April 18 Kyrgyz Prime Minister Igor Chudinov outlined a three-year development plan for Issykkul and Naryn Provinces that, among other things, seeks to make improvements in local infrastructure and boost the tourism industry. (9) Issykkul residents and Bakiev’s other opponents may interpret this as an additional perk for Kazakhstan – the Kyrgyz government funding improvements to tourism facilities for the profit of Kazakh companies.

In addition to signing the border delimitation treaty, President Bakiev also pledged to support Nazarbaev’s long-held wish to form a “Central Asian Union.” (10) The Kazakh president has been lobbying for closer integration between the Central Asian republics for some years now, arguing that “we are again witnessing superpower rivalry for economic dominance in our region. We have to address correctly this new global and geo-economics challenge. We have a choice between remaining the supplier of raw materials to the global markets and wait[ing] patiently for the emergence of the next imperial master or to pursue genuine economic integration of the central Asian region.” (11) Nazarbaev has spoken out on this topic at various meetings with other Central Asian leaders, including meetings of various CIS and Shanghai Cooperation Organization (SCO) bodies, but until now, only Tajik President Emomali Rahmon has voiced
any support for the idea (12) and it seemed destined to languish in inertia. Although Bakiev’s backing in and of itself does not make the proposal a sure thing, it might help gain the support of either Uzbek President Islom Karimov, or more likely Turkmen President Gurbanguly Berdymuhammedov. Without the endorsement of at least one of the leaders of these two economically powerful states, it is doubtful that any further progress can occur.

The two presidents agreed to cooperate on one additional and very thorny issue, namely the division of their countries’ water resources. (13) Representatives of the Central Asian states have been attempting to reach some agreement on water use for at least the past decade, through both bilateral and multilateral negotiations, some of which have been sponsored by outside entities, such as the EU. Water is not only essential for the region’s agriculture, but also for producing electrical power in Tajikistan and Kyrgyzstan. With both of those countries now urgently seeking investors to build a series of new dams and hydropower stations in the wake of this winter’s severe energy shortages, an agreement on water use has become critical. A meeting between Kazakh, Kyrgyz, Tajik, and Uzbek officials to sign an agreement on the division and use of the Syrdarya river basin’s water and energy resources has been scheduled in Bishkek for the end of this month; (14) if Bakiev makes good on his promise and supports Kazakhstan’s position on the matter, it might ensure that a) the agreement is actually signed and b) that its terms favor Kazakhstan and Kyrgyzstan. Should the Syrdarya pact be implemented, it could serve as a model to resolve other regional conflicts over water use.

The question still remains, however, whether or not the Kyrgyz public will let Bakiev’s promises to Kazakhstan stand or whether his attempt to pull a fast one by whisking the border delimitation treaty through the parliamentary approval process (in a parliament made up of an overwhelming majority of Bakiev’s own party members) will backfire and do what the Kyrgyz opposition has not been able to do for the past year: spark widespread anti-Bakiev protests and bring the
country’s citizens back out onto the streets to defend their interests in the face of Bakiev’s ever more corrupt and self-serving practices.

Source Notes:
(2) “Kyrgyz, Kazakh leaders call for boosting integration in Central Asia,” 17 Apr 08, Kabar; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(3) “Kyrgyz president upbeat on results of official visit to Kazakhstan,” 18 Apr 08, Kabar; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(4) “Kazakhstan halts wheat exports until September,” 15 Apr 08, Agence France Presse via Lexis-Nexis Academic.
(5) “Kyrgyz parl ratifies agreement with Kazakhstan on border,” 11 Apr 08, ITAR-TASS via Lexis-Nexis Academic.
(7) “Kyrgyz northeast residents set to protest at handover of resorts to Kazakhstan,” 21 Apr 08, 24.kg website; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(9) “Kyrgyz government discusses development strategy for two regions,” 19 Apr 08, AKIpress; BBC Worldwide Monitoring via Lexis-Nexis Academic.
Newly Independent States: Western Region

By Tammy Lynch

UKRAINE

Will Tymoshenko finish what Yushchenko began?

During the last two weeks, Ukraine’s cold war between President Viktor Yushchenko and Prime Minister Yulia Tymoshenko turned hot. The two leaders, who led the 2004 “orange revolution” together and now head the two parties in the ruling “orange coalition,” appear to have abandoned all pretense of unity. They are championing competing legislation in areas as diverse as privatization and education reform, and have declared themselves in favor of diametrically opposed amendments to the constitution. New parliamentary elections—the third such elections in three years—now seem increasingly possible as the governing coalition appears to be coming apart at the seams.

The war between the president and the government emerged from the back rooms into the full view of the public when Presidential Secretariat Head Viktor Baloha placed a rambling, often incoherent statement attacking the Prime Minister on Yushchenko’s official website. Baloha—who is called the “gray cardinal” in Ukraine’s media—called Tymoshenko a “mercenary” who is conducting “shady deals” with “secret agreements” allowing massive theft of state funds. He mocked Tymoshenko’s statement that a “land mafia” is
interfering with her attempts to auction state land publicly by suggesting that “the leader of government simply wants to head this mafia herself.” (1)

Baloha’s statements received significant attention but little traction within Ukraine, where he is largely distrusted by the populace as a secretive mini-oligarch. In fact, the respected Ukrayinska Pravda online news source recently examined Baloha’s connection to a questionable privatization deal during December 2007 in his home base of Transcarpathia.

Ukrayinska Pravda posted documents, which it said demonstrated that the head of the Presidential Secretariat had encouraged the privatization of military housing units and the land associated with them in Mukachevo, and then created shell companies in order to compete against himself in the tender. The website said it confirmed that Baloha’s wife and the wife of the former Mayor of Mukachevo (now a parliamentary deputy in Yushchenko’s bloc) created one of the firms bidding for the Mukachevo property. The investigators also alleged that the second company was owned by an accountant associated with one of Baloha’s firms. The journalists, therefore, labeled the privatization “a farce” since “all participants are connected to each other.” The winning firm paid approximately 1.2 million dollars. (2) Neither Baloha nor anyone involved in the privatization process has been charged with any wrongdoing.

At the same time, Tymoshenko is viewed by voters as one of the countries most committed reformers, who has been able to repel personal attacks by calling them attacks on her anti-corruption reform agenda.

Following the lack of response to his initial statement, Baloha upped his rhetoric, suggesting that all those in the cabinet with economic portfolios should resign. The cabinet had not dealt with “negative trends” in the economy, he said, leading to inflation of almost 10 percent as of March. (3)
In fact, Baloha is correct that inflation is the most difficult issue currently facing the government, and one that must be adequately addressed. However, in a report released last week, the IMF suggested that the current inflation surge “should fall gradually,” ending at roughly 17 percent, December to December. The organization took note, though, of numerous “uncertainties” in the economy, most notably steel prices and “intensified global market turbulence.” (4) Balazs Horvath, the IMF’s permanent representative in Ukraine further suggested that the government and the central bank “have been taking steps [regarding inflation] and many of those steps are, in our view, quite positive.” Moreover, “If the central bank and the government cooperate in an effective manner, then certainly it is possible to attain inflation that is significantly lower on a 12-month basis than it is at present.” (5) Tymoshenko recently pointed out that her government entered office following a major upturn in inflation, from under 10 percent in 2006 to over 17 percent under the government of Viktor Yanukovych in 2007.

Horvath’s admonition that the government and the central bank must work together is important; Petro Poroshenko, the head of the Council of the National Bank of Ukraine (NBU), was once a close ally of President Yushchenko and has a very strained relationship with Tymoshenko. His loyalties today are not entirely clear, although he was placed in his position by Yushchenko.

Worryingly, Yushchenko recently suggested that the NBU had “already done enough” regarding inflation and that the government’s expenses were to blame for the situation. (6) While expenses (and in particular social expenditures) are an important part of the inflationary cocktail, this sole focus contradicts calls from international economists and institutions for the NBU to remove the local currency’s peg to the dollar. “Ukraine imports the inflation of rising international food and energy prices through its dollar peg,” wrote Anders Aslund of the Peterson Institute for International Economics. “The inflation will continue to rise if the dollar plummets.” (7) In its report, the IMF also cited the need for the NBU to remove the dollar peg.
Echoing these statements, Tymoshenko recently complained that her control over the Bank is limited. “The government has no influence on the central bank,” she said. “But it is known that the central bank is coupling our currency very closely to the dollar. Foreign experts say that inflation is being imported in this way.” (8)

On 24 April, Poroshenko suggested that the bank may allow more flexibility in the hryvnia exchange rate, and in fact, the bank has allowed the currency to strengthen to slightly above the upper limit of the peg. There is no indication that the peg will be removed, however, while Tymoshenko has shown little intention of limiting social spending.

Therefore, it appears that inflation already may be developing into a weapon to be used in the Yushchenko-Tymoshenko war.

Meanwhile, Yushchenko and Baloha have inundated Tymoshenko with “demands” for government action. Tymoshenko recently noted that, in less than four months, her office has received 880 “demands” from the president, compared to only 260 demands sent to the previous government in more than one year. (9) The previous government of Prime Minister Viktor Yanukovych was replaced after Yushchenko branded it “criminal.” Nevertheless, Yanukovych received far less attention from Yushchenko than the current government – which is ostensibly in a coalition with the president.

The demands have included general orders to limit inflation, instructions to speed up preparations for Ukraine’s co-hosting of the 2012 UEFA European Football Championships, an order to “take appropriate measures to help victims” of a military helicopter crash, and a suggestion to consider the “restoration of the Ukrainian Falcons aerobatic team.” Demands generally were made in letters sent to Tymoshenko and released to the media simultaneously. (10)
Tymoshenko’s response to the receipt of an average of more than eight demand letters each day coupled with criticism from Baloha initially was muted. “I value the unity of the coalition,” she said, “and will not allow any individual to destroy it.” (11)

In late February, the respected weekly newspaper Den wrote, “In the little over two months of her premiership, there has been a great deal of criticism from Bankova Street [location of presidential secretariat] about Yulia Tymoshenko and the work of her government. However, the head of the executive power [government] is responding to these critical outbursts in an unusual way – by saying nothing.” (12)

Baloha’s opposition to Tymoshenko is unlikely to be based on the Prime Minister’s work as premier, since his criticism began almost immediately after Tymoshenko took office in late December. Instead, Baloha’s dislike of the Prime Minister is widely thought to be based upon several concerns: (a) the potential effect of Tymoshenko’s privatization drive on his business interests, (b) the impact of her attempts to reform state structures on his position, and (c) Tymoshenko’s refusal to accept his input or “advice.”

Regardless, in April, Yushchenko stepped up his “oversight” of the government. In particular, attacks on Tymoshenko’s ambitious privatization program became an important part of the President’s arsenal.

On 11 April, Yushchenko suspended via two decrees the privatizations of four major energy generation companies that were expected to gather at least 500 million dollars for the government. His decrees also cancelled the privatization of two state-owned research institutes, an iron ore mining facility, and a shipyard. Yushchenko, the head of the State Property Fund (who is a member of the Socialist Party), and several Ukrainian businessmen with energy ties accused
Tymoshenko of rushing into “mass sale of state property” without adequate preparation. (13)

Then on 15 April, Yushchenko cancelled the privatization of the Odesa Port Chemical Plant, which had a starting price of 600 million dollars. The State Property Fund had received 15 requests for the privatization document package and was anticipating up to one billion dollars in revenue from the sale. (14) Yushchenko charged that transport pipes associated with the plant would also be privatized, which would be against Ukrainian interests; the government denied this charge. (15) In 2006 and 2007, the parliament approved all privatizations planned by the government for this year.

Yushchenko’s decrees regarding privatization are carried out by the loyal head of the Fund, Valentina Semenyuk, a Socialist hold-over from the previous leftist government. In February, Semenyuk was suspended by the cabinet, pending an investigation of complaints about improper disposal of state property during the previous government. Viktor Baloha immediately responded. “I propose that the government should withdraw its decision to suspend Semenyuk,” he said. “Otherwise, the president will definitely issue a decree suspending the government's resolution as anti-constitutional.” (16) Yushchenko then signed a decree overruling the suspension.

At the same time, the president overturned the government’s plans to auction public land. The plan “is a new corrupt scheme,” he said on his official website. (17)

Two days later, the Bloc of Yulia Tymoshenko (BYuT) for the first time responded forcefully. In an official statement, the bloc accused the president and his allies of “anti-Ukrainian measures,” including “total ruination of all initiatives of the democratic government,” “blocking all anti-corruption initiatives of the government,” “creation of panic and hysteria regarding inflation,” “halting of
civilized privatization,” “taking into their hands shadow schemes in the gas sphere,” “providing cover for the corrupt leadership of the State Property Fund, … and disgracing the Ukrainian state.” (18)

Simultaneously, Tymoshenko announced her full support for the transfer of Ukraine from a parliamentary-presidential to a parliamentary republic. “The time has come to demarcate the functions of the authorities and make Ukraine a traditional parliamentary republic,” she told a meeting of the Parliamentary Assembly of Europe (PACE) in Strasbourg. (19) The implication, of course, is that the office of the president would be either removed or very sharply curtailed. Later, Tymoshenko suggested that she would not work toward the removal of the presidential office, but would attempt to limit its functions to that of a traditional Western European head of state with no legal ability to impact domestic policy. (20)

She also suggested to the Frankfurter Allgemeine Zeitung that her tension with Yushchenko is because “the president is thinking about the … presidential election [scheduled for 2009] and sees me as a competitor.” (21) In fact, according to the latest survey by the respected Razumkov Center, if a presidential poll were held today, 27.8% would support Viktor Yanukovych, 25.3% would vote for Tymoshenko, while only 11.6% would cast their ballot for Yushchenko. Furthermore, BYuT is predicted to place first in any special parliamentary elections that could be triggered by constitutional changes. (22)

There is no doubt that something must be done. Ukraine now suffers from an unworkable balance of power between the president and prime minister. The constitution creates many overlapping duties, while remaining silent on others, leaving them at the mercy of power politics.

In response to Tymoshenko, Yushchenko is championing aggressively a return to a stronger presidency, from a parliamentary-presidential to a presidential-
parliamentary form of government. But, given his low poll numbers, he will need to tread lightly regarding constitutional changes, for fear of triggering new elections. It may be too late, however. His lack of a light hand with Tymoshenko already may have spurred her to use every method at her disposal to limit his power or potentially to eliminate the presidential office altogether.

Source Notes:
(3) "Ukraine leader takes a shot at government over economy,” UNIAN News Agency, 10:24 CET, 16 Apr 08 via www.unian.net.
(6) “President makes comments on inflation to ICTV,” Press Office of President Viktor Yushchenko, 19:00 CET, 13 Apr 08 via www.president.gov.ua.

(10) See www.president.gov.ua, in particular “President grieves for Mi-8 crash victims," 27 Mar 08; "President suggests restoring the Ukrainian Falcons," 17 Apr 08.


(13) "Lost generation: President Yushchenko has intervened in Yuliya Tymoshenko's privatization plans," Kommersant-Ukraine, 14 Apr 08; BBC Monitoring via Lexis-Nexis.


(16) 5 Kanal TV, 15:00 GMT, 6 Feb 08 via Lexis-Nexis.


(18) BYuT accuses Yushchenko of understaking anti-Ukrainian measures,” Press Service of BYuT, 14:10 CET, 16 Apr 08 via www.byut.com.ua.


(21) Quoted in “Tymoshenko accuses Yushchenko of blocking her policy,” UNIAN News Agency, 18:06 CET, 21 Apr 08 via www.unian.net.

(22) “Yanukovych and Tymoshenko have the biggest chances to win presidential race – poll,” UNIAN News Service, 18:31 CET, 22 Apr 08 via www.unian.net and