Among men of honor a word is a bond

Any doubts about the relative status of Prime Minister Vladimir Putin and President Dmitri Medvedev seemed to dissipate in the midst of the crisis over South Ossetia and Russia's invasion of Georgia. While some Russian analysts suggested that the timing of the crisis put Medvedev in the spotlight (and angered Putin, who had departed for China), it clearly was Putin's actions and his visibility that garnered international attention. From his high profile appearance at the Olympics and conversations with President Bush, to his early departure from Beijing and his mission to the refugees and wounded in Vladikavkaz, Putin certainly appeared to be in charge. The focus on Medvedev, particularly his role in negotiating ceasefire terms, largely has reenergized the question of whether or not he has any real authority in Russia.

Putin also served to underscore the issue when he returned from Vladikavkaz. Not missing an opportunity to exert his authority, Putin made public "recommendations" to Medvedev that sounded decidedly more like orders: "I think it would be the correct course of action, Dmitry Anatolyevich, for you to instruct the Military Prosecutor’s Office to document episodes of this type, all the more so as most of the population of South Ossetia are citizens of the Russian Federation. The things I heard about today from the refugees are clearly crimes against the civilian population. As I said, I think it would be right for the President to issue this instruction to the Military Prosecutor’s Office." (1)

When French President and current European Union head Nicolas Sarkozy arrived in Moscow to negotiate a ceasefire, President Medvedev returned to
center stage. In a press conference following negotiations, Medvedev announced that he had signed the ceasefire agreement and that Russian troops would be withdrawing from Georgia. "The fact of the matter is that a reinforced Russian peacekeeping contingent carried out an operation to enforce peace on the Georgian leadership. This operation has been successful, and we are therefore ending it. Today was the right moment to end this operation, and not yesterday or tomorrow. We have therefore declared a temporary ceasefire until a full solution to the problem can be achieved in accordance with the principles that we just named." (2)

As days passed, Russian troops surged forward further into Georgia and dug in, but most decidedly they did not withdraw. This disparity between the Russian president's deeds and the military's actions prompted the US Secretary of State Condoleezza Rice to remark: "Well, I just know that the Russian president said several days ago Russian military operations would stop. They didn't. The Russian president told President Sarkozy that the minute that cease-fire was signed by President Saakashvili, Russian forces would begin to withdraw. They didn't. Now he has said that tomorrow, midday, Russian forces will withdraw and withdraw to their pre-August 6, 7 lines. This time I hope he means it. You know, the, the word of the Russian president needs to be upheld by his forces. People are going to begin to wonder if Russia can be trusted. I, I think it's really very much time for them to do what they say they're going to do." (3)

Searching for an answer to this gap between Medvedev's agreement to withdraw and the contrary actions of the Russian military, speculation centered on a power vacuum at the pinnacle of Russian executive authority. Was Medvedev unable to deliver a ceasefire? Were Russian armed forces under his control? Putin's? The debate over the true center of authority in the Russian leadership appears unwarranted. Internally, there is no indication that Russia's political establishment is disconcerted by the military leadership's behavior. Indeed, their actions do not appear at odds. President Medvedev, citing reasons for the delay
in implementing the withdrawal that did not include dissent from his generals, set a new deadline for withdrawal: August 18 at Noon. While there seems to be a halt to the advance in some sectors at least and Russian troops have “lowered their profile” in parts of Georgia, reports indicate that Russian positions, in fact, were reinforced the night before the deadline. President Medvedev, appearing in Vladikavkaz to decorate servicemen, underscored the Russian intent to withdraw, as did his Deputy Chief of Staff Anatoli Nogovitsyn, who said: "The pull-out of peacekeeping forces started today." (4) Nonetheless, an actual full withdrawal of Russian troops to the positions held on August 8 seems increasingly unlikely. What has become apparent is that the Russian leadership's word, and even the president's signature on an international agreement, does not necessarily reflect their intention to honor that agreement.

Russia's resort to force in its invasion of Georgia, coupled with its refusal to honor its commitments in an appropriate and timely manner have done serious, perhaps irreparable, damage to its reputation. The decision by the Putin-Medvedev administration to circumvent every conceivable international institution in which it could have addressed its claims concerning events in South Ossetia reveals its disdain for those institutions. As such, its membership in key international organizations, and certainly its pending membership in the WTO, becomes an open question. The reliability of a partner that so brazenly refuses to honor its word should give pause to any other state with which Russia has dealings. Certainly, financial managers and investors will have to take account of the Russian state's irresponsible behavior, particularly as they assess companies wholly or partially intertwined with the state and its apparatchiki.

Russia managed, in the short term, to demonstrate its military superiority vis à vis a significantly smaller and weaker state, but this act of intimidation, so much more in keeping with an organized crime syndicate than a responsible member of the international community, likely will boomerang back on this hapless diarchy (if, indeed, this constitutes an appropriate term to describe Russia's current
leadership). Once again, Russian overreaching could well accelerate the very trends it apparently hoped to forestall.

Source Notes:
(1) "Beginning of working Meeting with Prime Minister Vladimir Putin, 10 Aug 08 via http://www.kremlin.ru/eng/speeches/2008/08/10/0343_type82913_205084.shtml, accessed 17 Aug 08.
(3) "Meet the Press" Transcript for August 17, 2008 via http://www.msnbc.msn.com/id/26252093/.
(4) " Russia 'starts Georgia pull-back,'” 18 Aug 08, BBC News via http://news.bbc.co.uk/2/hi/europe/7567184.stm.

Russian Federation: Domestic Issues and Legislative Branch
By Rose Monacelli

Plan to “counteract corruption” introduced
Ending months of speculation about his oft repeated desire to emphasize the rule of law and end the corruption plaguing Russian business and government functions, President Dmitri Medvedev announced on July 31 that he had signed the Plan to Counteract Corruption on July 19. The Plan to Counteract Corruption was the result of a joint effort by the Kremlin-established Counter-Corruption Council and an inter-agency working group. The Council was supervised closely by Medvedev, who participated in the planning process and rejected the first draft “for its complacency.” (1) The adoption of the Plan to Counteract Corruption was
announced at a meeting on property rights for small and medium-sized businesses in Gagarin, where the president guaranteed that “the work on it will be started in the short run.” (2)

Medvedev’s plan is the latest in a long series of Russian anti-corruption legislation. During the 1990s, several drafts were produced, and one was even voted on before being vetoed by then-President Yeltsin. In 2000, the process was repeated, but the legislation failed to produce results. (3) Putin’s team drafted a law aimed at preventing corruption in 2007, but it was tabled in anticipation of the upcoming parliamentary elections. Aside from the fact that a plan to regulate corruption has never been approved by the Duma, the other major obstacle to Russia’s fight against corruption is the lack of an existing legal definition of the term. Generally, “corruption” could be defined as the misuse of public authority for profit, but the actual term is not found anywhere in Russian law. (4) The newest iteration of anti-corruption law in Russia is careful to define corruption before it outlines its plan to combat it.

Medvedev’s Plan to Counteract Corruption is concise, consisting of only four sections, each dedicated to one central topic, including “new laws; measures to improve governance, personnel training and emergency anti-corruption actions.” (5) It will be sent to the Duma for ratification in September.

The plan will create units designed to work against corruption from within the personnel departments of state-level governmental bodies, effectively shifting control to a lower level, in order to ensure tighter monitoring of individuals. These units will eliminate the need for a central department by giving civil servants more responsibility for reporting suspicious conduct. Monitoring employee behavior is a large part of the plan, as standards also been have set for investigating the property and financial holdings of government employees and their families. (6)
The legislation includes a clause that sets administrative penalties for companies involved in any level of corruption. This means that a company is responsible not only for its official conduct and that of its spokespeople, but for each individual employee. Critics have compared this new policy to “punishing a football club for the misbehavior of its fans,” but proponents of the plan argue that it provides strong motivation for companies to take more responsibility for what happens within their ranks. (7)

In keeping with Medvedev’s focus on prevention, rather than punishment, the penalties already in place for corruption-related crimes will not change. The new plan instead makes punishment for such behavior a certainty, rather than a possibility. (8) Any city or region failing to comply with the Plan to Counteract Corruption would be subject to what Medvedev called his “proletarian legality,” where small businesses would be given the opportunity to buy any building they are currently renting or leasing. (9)

Medvedev’s consistent focus on fighting corruption since his inauguration could be seen as his first major attempt to separate himself from former President Putin.

Despite his ability to orchestrate the return of a sense of political and social stability, one success that eluded Putin was to solidify the country’s financial system by eliminating the threat of corruption. Russia’s economic success is undermined daily by reports of corruption and the absence of a system to ensure the success of small businesses, one of the most frequent targets for government authorities looking to solicit bribes. Medvedev has taken up the cause of small businesses, which he presents as the cornerstone of his plan to make Russia more attractive to international investors. (10)

Since January 2008, 26,787 reported crimes have been classified as “corruption,” including 8,594 reported instances of accepting bribes. This is an
11 percent increase from the same period last year. (11) Russia’s recent economic scandals have made the country less and less desirable to outside investors, as such issues point to the failure of the rule of law, undermining the country’s burgeoning reputation as an economic power.

In the past decade, Russia has ratified both the Council of Europe Criminal Law Convention on Corruption and United Nations Convention against Corruption, each of which outline clear standards for fighting against corruption. Although membership in these organizations lends Russia credibility, it has failed, as yet, to report to either body. (12) Should the plan go into effect, it also will place one preexisting governmental structure, most likely either the Prosecutor General’s Office or the Justice Ministry, in charge of monitoring and following the international anti-corruption standards for the conventions that Russia has signed. (13)

Other widespread abuses include officials failing to fully disclose financial information, combining private entrepreneurial activity with government contract work, managing public companies, using government equipment for personal gain, and accepting bribes for expediting citizens’ requests. (14) Most of the time, these activities are not reported because the other parties involved also benefit from the situation. There may be another, more insidious force behind the acceptance of corruption. According to Aleksandr Anikin, head of the committee within the Russian Federation’s General Prosecutor’s Office, the current situation is indicative of a general “mental collapse,” where people are no longer hesitant to take or accept bribes or steal from the state. (15) The most effective way to combat this, he stresses, may not be to appeal to people’s consciences, but to scare them, instead.

**Doping scandal**

Despite Russia’s ongoing efforts to rehabilitate its image, an announcement by the International Association of Athletics Federations (IAAF) two weeks ago
undermined confidence in Russia’s Olympic sports program. On July 31, the IAAF suspended seven members of Russia’s track and field team on suspicions of cheating, after finding "a fraudulent substitution of urine which is both a prohibited method and also a form of tampering with the doping control process." (16) The athletes in question include Yelena Soboleva, the current world champion in the 800-meter run, along with a handful of other medal hopefuls from various track and field disciplines.

The suspensions came after a one and a half year-long IAAF-sanctioned sting operation into a sudden surge in the prowess of several of the members of the Russian track and field team. Initially, every athlete tested negative for drug use. (17) But, as experts compared samples taken from the athletes during and after competitions, it became apparent that they were not from the same sources.

In the week that followed, IAAF officials suspended cyclist Vladimir Gusev, as well as one active member and two alternates from the race walking team on suspicions of performance-enhancing drug use. (18) When asked about Team Russia’s ongoing scandal, the head of the International Olympic Committee’s medical commission, Arne Ljungqvist, described the situation as “an example of systematic, planned doping” and “planned cheating,” (19) suggesting that the scandal has a broad base that includes far more than the few competitors who have been caught thus far.

The IAAF’s announcement came at the worst possible time for Russian sports officials, as the Beijing Olympic Games had been Russia’s opportunity to shrug off past mistakes and reemerge on the world stage as a sports machine. Odds makers had considered Russia a solid contender likely to trail only China and the United States for both most gold medals and most overall medals won. (20)

Last January, Russia’s sports minister announced the creation of RusADA, an independent anti-doping agency dedicated to preventing the use of performance
enhancing drugs. RusADA, which was modeled after USADA, the United States’ anti-doping agency, was also responsible for handling any doping cases. The agency was created in response to a particularly bad year in which seven Russians were banned from competition for two years by the International Rowing Federation and several Russian track and field team members tested positive for illegal substances. (21)

RusADA voiced its displeasure at the timing of the IAAF’s announcement, accusing the organization of withholding the information until the Olympics in order “to make life difficult for the Russian team” and calling Ljungqvist’s statement “premature”. (22) For its part, the IAAF denied any connection between the Olympic games and its decision, arguing that it needed to be completely certain before making any accusations. (23)

After dominating the sports world for years as part of the Soviet Union, the quality of Russian sports dropped sharply during the 1990s and early 2000s. During the Olympic games in Athens and in the preparations for this year’s games in Beijing, however, the Russian Olympic Committee (ROC) had been working to revamp the program into something that could recapture its past glory. One part of the ROC’s plan has been to capitalize on the recent countrywide rise in patriotism; the other component of the plan has included major state investment in the modernization of athletic facilities and training programs in every sports discipline. Between 2005 and 2008, an estimated 12 billion rubles ($510 million) was budgeted for Olympic preparations. (24)

Part of this financial windfall also has been allocated to increase Russia’s bonus system for winning athletes, for the first time since 1996. In mid-July, the ROC announced that gold medals, which had previously earned an athlete $50,000, would now be worth $160,000. Silver and bronze medal values were raised as well, with silver increasing from $20,000 to $60,000 and bronze from $10,000 to $40,000. This money is in addition to the gifts showered on winning athletes by
their local governments, which range from housing and cars to appliances and cash. (25)

Cash incentives are supposed to motivate athletes to do their best and bring honor and glory back to Russia. However, in the wake of the ongoing scandal, it appears that some of the athletes took the push to win a little too far.

Source Notes:
(2) “Russian officials clarify aspects of anticorruption plan,” Itar-Tass, 1 Aug 08 via David Johnson’s Russia List (JRL), 4 Aug 08, 2008-#141, 4 Aug 08.
(3) “High stakes in Russia’s corruption battle,” Opendemocracy.net, 28 Jul 08 via David Johnson’s Russia List, 1 Aug 08, 2008-#140.
(4) “High stakes in Russia’s corruption battle,” ibid.
(5) Anastasia Kornya, Kira Latukhina, “New anti-corruption plan is signed, to be put into motion before long,” Vedomosti, 1 Aug 08 via David Johnson’s Russia List, 1 Aug 08, 2008-#140.
(6) “Kornya, Latukhina,” ibid.
(7) “Russian officials clarify aspects of anticorruption plan,” ibid.
(8) Tatyana Netreba and Tatyana Kuznetsova, “Interview with Aleksandr Anikin, head of an anticorruption administration at the Russian Federation General Prosecutor's Office,” Argumenty i Fakty, 1 Aug 08 via David Johnson's Russia List (JRL), 4 Aug 08, 2008-#141, 4 Aug 08.
(9) “Russian officials clarify aspects of anticorruption plan,” ibid.
(10) Tatyana Netreba and Tatyana Kuznetsova, ibid.
(11) “Russian Prosecutor's Office Aide Comments on Anticorruption Campaign,” Argumenty i Fakty, 1 Aug 08 via David Johnson’s Russia List (JRL), 4 Aug 08, 2008-#141, 4 Aug 08.
(12) “High stakes in Russia’s corruption battle,” ibid.
(13) Tatyana Netreba and Tatyana Kuznetsova, ibid.

(14) “Russian Prosecutor's Office Aide Comments on Anticorruption Campaign,” ibid.

(15) Ibid.


(19) Ibid.


(22) Sonia Oxley, ibid.

(23) “Russia faces drug scandal of BALCO proportions,” ibid.


(25) Ibid.
Lavrov in Beijing

On 21 July, Russian Foreign Minister Sergei Lavrov arrived in Beijing at the invitation of Chinese Foreign Minister Yang Jeichi. The central purpose of the visit apparently was to enable the two countries to sign a treaty finally resolving a long-running border dispute, which has been raging since the Qing dynasty. It has been resolved in the main since the end of the Cold War, with the notable exception of the Amur River islands of Heixiazi and Yinlong (called Tarabov and Bolshoi Ussuri by Russia), which were the site of armed clashes during the Cold War. (1)

The islands are to be divided along agreed demarcation lines—approximately 50-50—and those parts of the islands belonging to China will be handed over to Beijing in a formal ceremony some time before the end of September (in order not to overshadow the Olympic Games), according to General Valeri Putov, Chief of the FSB’s Far East Department. (2)

Other issues also were addressed, as Lavrov met with Chinese Premier Wen Jiabao and President Hu Jintao during his visit. Russia and China have decided to implement their Good Neighborly Treaty of Friendship and Cooperation, expanding their strategic cooperation before the end of 2008 and have decided to hold talks in the near future to negotiate a “bilateral energy negotiation mechanism.” (3) The two countries also plan to introduce a visa-free system of travel between themselves, in order to promote easier economic and social contacts. (4)

With the exception of the border agreement, Lavrov’s visit had all the appearance of a love-in, with both sides at pains to stress how important the other is to it. (5) But, it would be wrong to conclude that there is nothing behind the talk. Russia has problems on its Western and Caucasus fronts—as ABM, the NATO membership aspirations of Georgia and Ukraine, and current events in Georgia
demonstrate. Lavrov’s détente trip to China therefore, may constitute a Russian effort, reminiscent of actions taken by Nikita Khrushchev during the 1958-61 Berlin Crisis, to secure its eastern flank, so that it can fully focus its attentions to the West and South, where the Kremlin perceives clear and present dangers.

**ABM update**

During the last few months, there has been little movement in the dispute between Russia and the United States over the latter’s planned ABM shield (intended to guard against Iranian nuclear proliferation). Russia has, on a number of occasions, made clear that it views the system overall, and the European component specifically, as a direct threat. Moscow claims that under cover of installing Patriot missiles, the US may instead station medium range nuclear tipped ballistic missiles in Poland. (6)

The United States has attempted to assuage Moscow’s concerns by offering to allow verification visits by Russian officials, an offer that has been rejected, with Foreign Minister Sergei Lavrov promising that there would be a “military-technical” response to the ABM system and insisting on a permanent military observer presence at the planned facilities at a minimum. (7)

Late in July, on the sidelines of the ASEAN Summit, Lavrov held brief discussions with Secretary of State Condoleezza Rice, during which the ABM issue was discussed once more. After the meeting, Lavrov met with Russian TV reporters, and revealed that he had impressed upon Rice the need to “clarify” the ABM issue farther, noting that the “transparency and confidence building measures promised...do not materialize into something concrete and tangible so far.” (8)

Lavrov also claimed that he had emphasized to his US counterpart the need to speed up negotiations on a new Strategic Arms Limitation agreement, given that START 1 becomes defunct at the end of next year. Russia, Lavrov noted, does
not “want to leave a vacuum in this important issue.” Secretary Rice apparently agreed with at least this aspect of Lavrov’s comments. (9)

The final development of interest in relation to the ABM shield is that the Polish government has extended invitations to Lavrov and President Dmitri Medvedev, asking that they come to Warsaw at an as-yet unspecified date, in order to discuss a number of issues, including ABM. Poland’s ambassador in Moscow, Jerzy Bahr, stated that Poland wishes to have a “dialogue” with its neighbor, in the hopes that talks will “change Russia’s evaluation” of the stationing of a “few interceptors” that “hardly…pose a threat to one of the world’s powers.” (10)

What accommodations Poland can make is an open question: although the planned bases will be on Polish soil, they will be US facilities. Therefore, even if Warsaw were inclined to consider Moscow’s “permanent presence” demands, it is likely to run into objections—if not a veto—from Washington. As such, it is safe to say that the ABM issue, at least for the time being, is at an impasse.

It is evident that the United States is determined to build its ABM system. Whether the missile component is stationed in Poland or elsewhere remains to be seen. It is entirely possible that Moscow is seeking to place the issue on a back-burner for now, in the hopes of extracting the maximum concessions for its acquiescence from a new presidential administration early in 2009. The most obvious target for concessions is the question of NATO expansion, and the Kremlin may seek to create a linkage between ABM and that issue.

**SCO foreign ministers’ meeting**

Several days after the ASEAN summit, Lavrov traveled to Dushanbe, Tajikistan, for a meeting of the Shanghai Cooperation Organization’s Foreign Ministers. The main purpose of the meeting was to lay the groundwork for the SCO Heads of State meeting, which will take place on 28 August. The ministers examined and coordinated a draft of the Dushanbe Declaration, a joint communiqué that is
to be released after the main summit. The document’s emphasis lies in promoting the “reinforcement of security and stability and in the development of many-sided and mutually advantageous cooperation in the economic and humanitarian fields,” as well as in proposing ways to improve the SCO’s functions. (11)

Specific items that are to be on the Heads of State Agenda include the drugs trade, Afghanistan, the illicit arms trade in the region, and the scheduling of joint anti-terrorist exercises. (12)

One issue that the Foreign Ministers apparently devoted some time to was the question of Iran’s application for associate membership in the SCO. At this point in time, Iran is an SCO Observer, and the organization has a moratorium on accepting new entrants. The idea of lifting that blockage was discussed by the Foreign Ministers. (13) Lavrov’s comments after the meeting indicate the moratorium remains in place. Iran, Lavrov stated, could not become an associate member, since such status does not exist in the organization. (14) Expansion is not on the heads of states’ agenda, but the SCO is committed to “steps that will allow observers to take part in SCO’s activities that evoke their interests.” (15)

Russia is to take over the Presidency of the SCO on August 29th. Given that fact, it is likely that the decision to maintain the moratorium was Moscow’s decision, and it seems reasonable to ask what Russia’s game is. Iran is a country of major concern to the US and the West generally speaking. Is Russia keeping Iran out of, what is after all in part a military alliance, using it as a bargaining chip to obtain diplomatic victories in other matters that concern it more?

Source Notes:
(1) “Territorial Issue Finally Resolved Between Russia, China,” Interfax, 21 Jul 08; OSC Transcribed Text via World News Connection.
(2) “PRC Scholar Hails Russia’s Return of Island To China During FM Lavrov’s Visit. Roundup By ZTS Reporter Hai Ci: ‘Russia’s Foreign Minister Visits China To Put An End To the Border Disputes And Remove Past Enmities Between China And Russia,” Zhonggou Tongxun She Online, 21 Jul 08; OSC Translated Text via World News Connection.


(4) “Russia, China To Sign Agreement on Visa-Free Travel For Businesses,” Channel One TV, 21 Jul 08; OSC Translated Excerpt via World News Connection.

(5) “China Is Special To Russia,” Agentstvo voyennykh novostey, 21 Jul 08; OSC Transcribed Text via World News Connection.

(6) “U.S. May Station Ballistic Missiles Instead of Interceptors in Poland-Kommersant Moscow,” Kommersant.com, 10 Jul 08; OSC Transcribed Text via World News Connection.

(7) See The ISCIP Analyst, Volume XIV, Number 14 (24 Jul 08).


(9) “Russian Minister Calls For More Active Work On New Strategic Arms Treaty,” Interfax, 23 Jul 08; OSC Translated Text via World News Connection.

(10) “Poland Wants Russia’s Top Leaders To Come For Visit,” PAP, 6 Aug 08; OSC Transcribed Text via World News Connection.


(12) “Russian FM Remarks Following SCO Council of Foreign Minister’s Meeting; Opening Remarks and Transcript of Responses to Questions from Russian and
Russian Federation: Energy Politics

By Creelea Henderson

Cracks in the monolith: Gazprom exports to be de-monopolized

Six months and one president ago, stability was the Kremlin’s watchword and state-controlled monopolies were Russia’s national champions. Today, cracks are appearing in energy monoliths that once were pillars of the Russian economy, beginning on July 1 when national electricity monopoly, Unified Energy Systems ceased to exist. One week later, on July 7, Gazprom—national energy monopoly par excellence—found itself bedeviled by a proposal from the Federal Antimonopoly Service to strip away its exclusive right to export Russian gas. The proposal is a piece of pending legislation that, if passed, would require Gazprom to yield all surplus capacity of its extensive pipeline network to a government agency to be auctioned off to Russia’s independent natural gas producers, effectively bringing Gazprom’s monopoly to an end. (1)

And what is Gazprom, if not a monopoly? It is currently the world’s largest producer of natural gas. (2) It accounts for 85% of the natural gas produced in Russia in the first half of 2008. It holds contracts to supply about 30% of Europe’s total gas volumes over the next fifteen to twenty years. (3) But it appears that it
will not be the sole exporter of Russian natural gas in the near future, and that is quite something.

Exclusive rights for exporting natural gas were granted to Gazprom back in 2006, when a law was passed formalizing the company’s de facto monopoly over Russia’s natural gas transport system. The law is framed around national security concerns: “[given] the necessity to protect the economic interests of the Russian Federation, to fulfill international gas export obligations, to ensure the supply of revenue to the federal budget and to support the fuel-energy balance of the Russian Federation.” (4) The law was a great boon for the company, legitimizing a monopoly that brought in profits of $28.1 billion in 2007 from the sale of Russian gas on foreign markets. (5)

But with privilege came obligation. Gazprom is not a private enterprise born of a free market, but an instrument of the state, used to manage Russian assets in the name of greater goals. While export revenues may appear compelling, the corporate profit motive is often at odds with state policy goals such as supplying the domestic market with cheap natural gas. Gazprom’s commitment to the national gasification project means that the company must sell its gas at prices set by the government agency—a condition that has led to huge inefficiencies as cheap gas has replaced other fuels that transitioned to market prices, making Russia the largest gas consumer in the world today. (6) The country’s artificially depressed gas prices do not even cover the costs of production and transportation, meaning that Gazprom’s export revenues are being used to subsidize its domestic obligations. It is a cost the company cannot afford to bear at a time when it is in urgent need of capital to invest in new gas field development, new pipeline projects and existing infrastructure reconstruction, in order to arrest the decline in production that is threatening Russia’s natural gas sector. (7)
Here is demand that wants supply—but in a rigged market, independent producers are operating on the margins. Companies like Novatek, LUKoil, Surgutneftegaz, Rosneft and TNK-BP account for only around 15% of Russia’s natural gas production. (8) Dissuaded by the depressed price of gas on the domestic market and a lack of access to Gazprom’s proprietary transportation infrastructure, independent producers have few incentives to boost their production levels. Recognizing this, the Russian government resolved upon a price deregulation schedule in 2006 that gradually increases regulated gas prices till 2011, when prices are expected to reach a European market level, minus transportation costs and customs duties. (9) Gazprom officials, anticipating the emergence of independent natural gas producers to supply the domestic market and eager to redirect Gazprom’s own gas volumes to lucrative foreign markets, heartily endorsed the government’s pricing reform. (10)

The same cannot be said for another point on the reform agenda, an amendment to the 2006 gas export law that would allow independent gas producers to participate in natural gas exports by granting access to gas pipelines, which currently are controlled exclusively by Gazprom. (11) On June 27, the Federal Antimonopoly Service submitted a draft of the new law “On supporting non-discriminatory access to the gas transport system in the Russian Federation” to the Russian legislature. If approved, the law will stipulate that Gazprom’s interests shall be given priority to the extent that the company meets its contractual obligations to consumers. Whatever pipeline capacity remains unused by Gazprom shall be allocated to independent producers via open tender. (12)

Gazprom officials have opted to keep their own council and decline to comment on the proposals before the parliament. Their reticence effectively has stalled passage of the antimonopoly bill in the legislature. Gazprom representatives will say only that the company awaits a new proposal from the Federal Antimonopoly Service. (13)
In numbers alone, the changes anticipated by the new export scheme do not represent a particularly striking departure from the status quo. Spare capacity is already at a premium along Russia’s gas transportation corridor; the optimal scenario projected by the Federal Antimonopoly Service projects independent producers’ aggregate share in the pipelines topping off at 15% of total capacity. (14) Unimpressed by the paltriness of that figure, experts in the energy industry peg the minimum share of the national gas transportation system that Gazprom must relinquish in order to support a competitive energy market at 25%. (15) Anything less will yield a market that is skewed by gross disparity. Russia’s independent natural gas producers will not be competing with Gazprom in international markets regardless of whether or not the amendment is passed. Independents and monopolists alike are keenly aware that Russia benefits when prices are high.

But the numbers are not the story. The story unfolded in the years when President Putin created an energy monopoly to serve the greater good of Russian national interests through an economic instrument. Gazprom was regarded as the exemplar of economic stability – an unassailable monolith. Recently, Prime Minister Putin remarked to Gazprom Chairman Alexei Miller that independent producers are experiencing difficulty accessing pipelines. These difficulties, Miller was given to understand, are not in Russia’s national interests. (16)

Source Notes:
Newly Independent States: Caucasus

By Robyn Angley
GEORGIA

Abkhazia extends its “borders”

While much attention has been paid to the South Ossetian front of Russia’s march into Georgia, less notice has been taken of the actions in and around Abkhazia. Three days after the outbreak of hostilities, Abkhaz officials (with the encouragement and support of their Russian backers) seized the opportunity provided by the South Ossetian theater, and opened a second front against Tbilisi. On 10 August, Abkhaz officials announced their intention to take the Upper Kodori Gorge, a source of contention between Abkhaz and Georgian officials. The Abkhaz offered a “humanitarian corridor” for the “complete withdrawal” of Georgian forces from Kodori, threatening to launch an operation to “eliminate them” if they did not comply. (1) Separatist forces coordinated with Russian “peacekeepers” on the Kodori operation, (2) even as Russia increased the number of its troops in Abkhazia to 9,000. (3)

Following the Kodori Gorge operation, Abkhaz authorities announced a unilateral decision to extend the boundaries of Abkhazia to the Inguri River, which they claim is the traditional border. (4) This illegitimate demarcation encompasses a portion of Georgia’s Zugdidi region, as well as the Inguri hydroelectric power plant.

Additionally, Abkhaz “President” Sergei Bagapsh announced on Sunday, 10 August, that Abkhaz forces had entered the Gali region “to restore order in the peacekeeping forces' responsibility zone.” (5) The Gali district has been a continual source of conflict and small-scale violence since the initial Abkhaz war in the early nineties. The region has both ethnically Georgian and Abkhaz residents, who sometimes clash.

Both the Gali and Kodori operations were clear attempts to establish Abkhaz control over disputed areas that had been sore spots for Sukhumi’s leadership
and both, apparently, were successful. Georgian forces and citizens were evicted from the Upper Kodori Gorge by 12 August, (6) with many of those expelled going to Kutaisi—Georgia’s second largest city and one already tense from the combination of refugees from earlier conflicts and a high unemployment rate. On the Gali front, Georgian sources announced on 16 August that Abkhaz forces had occupied 13 villages, extending past the Gali region. (7) Officials from the separatist republic denied this claim, stating instead that they were defending the new “border” and distributing humanitarian aid. (8)

The actions in Abkhazia, particularly around the Gali region, mean that large numbers of ethnic Georgian refugees, already displaced multiple times by previous conflicts, will be heading to towns in western Georgia, most likely Kutaisi and Batumi.

**South Ossetian government dismissed**
South Ossetian leader Eduard Kokoity dismissed his entire government and declared a state of emergency on 18 August. (9) Kokoity claimed that his ministers had not responded adequately to the current crisis, in particular the need to rebuild South Ossetia’s infrastructure and to address the refugee crisis spawned by the recent fighting in Tskhinvali and other villages.

The move may be an attempt to strengthen his control of the separatist government. However, the limits of Kokoity’s power and influence are certainly questionable, given the very close links ministers in his government have had with the Russian security services, even before the recent invasion.

Disturbingly but unsurprisingly, Kokoity also has stated that South Ossetia will ask the Russian government to build a permanent Russian military base in the region. (10)

Source Notes:
(2) “Abkhazia dispatches troops to Kodori,” Civil Georgia, 10 Aug 08 via GND, 11 Aug 08.
(3) “Russia boosts forces in Abkhazia to 9,000,” Reuters, 11 Aug 08 via GND, 11 Aug 08.
(4) “Russian army, separatist forces occupy villages in west Georgia – ministry,” Regnum, 16 Aug 08; BBC Monitoring via Lexis-Nexis.
(5) “Abkhazia plans to "restore order" in Georgia's Zugdidi district – Bagapsh,” Tass, 11 Aug 08 via Georgia News Digest, 11 Aug 08.
(6) “Abkhazian forces expel Georgian forces from Kodori gorge,” Russian Zvezda TV, 12 Aug 08; BBC Monitoring via Lexis-Nexis.
(9) “Georgia rebel region sacks government,” 18 Aug 08, Reuters India via http://in.reuters.com/article/worldNews/idINIndia-35054020080818?pageNumber=1&virtualBrandChannel=0.

Newly Independent States: Central Asia

By Monika Shepherd

TURKMENISTAN
Turkmenistan continues to play the gas game
The Turkmen government’s natural gas supply commitments continue to multiply, as President Gurbanguly Berdimuhamedow tries to broker ever more contracts
with regional rivals for his country’s energy resources. Over the past few weeks, Turkmenistan’s President Gurbanguly Berdymukhamedow has continued his negotiations with Russia’s Gazprom and with China’s CNPC (China National Petroleum Corporation) over his country’s natural gas resources, signing pricing and investment agreements with the former and offering an additional 10 billion cubic meters of natural gas per year to CNPC (CNPC is currently under contract to purchase 30 billion cubic meters). (1) Despite provoking Iranian ire last spring, when the Turkmen government hiked its gas export prices, deals for additional gas exports to Iran are back on the table – the managing director of the National Iranian Gas Company announced on August 10 that a delegation had arrived from Turkmenistan to discuss the possibility of increasing gas supplies to Iran. (2) Another possible gas transaction could be in the offing, depending upon whether or not the Turkish government concludes a gas import deal with Iran next month. Should the deal go through, Iran will pipe its own gas, as well as supplies from Turkmenistan, to Turkey. (3)

Many experts consider the Turkmen president’s commitment to Gazprom as the most significant of these developments, some even going so far as to interpret the new contracts, part of Gazprom’s 25-year energy deal with the Turkmen government (the original deal was signed in 2003), as giving Russia the lion’s share of Turkmenistan’s gas resources. During Alexei Miller’s (Miller is the chairman of the Gazprom Management Committee) late July visit to Ashgabat, two agreements were signed, one which will allow the Turkmen government to change (and most likely increase) the price of its gas supplies to Gazprom, based on their market value, and a second to increase Russian investment in Turkmenistan’s energy infrastructure, particularly in the eastern part of the country. In Miller’s own words: “An agreement was reached on funding and constructing new gas mains from the eastern part of the country by Gazprom, developing field infrastructure and increasing the capacity of the Turkmen section of the Precaspian gas pipeline up to 30 bn. cu. m. Gazprom will take part in the construction.” The Precaspian pipeline project to which Miller referred was
agreed upon by the Russian, Kazakh, and Turkmen presidents in May 2007 and once completed would deliver up to 10 billion cubic meters each from Kazakh and Turkmen natural gas fields to the Russian Federation. (4)

However, precisely what price Gazprom will pay has yet to be decided. For the time being, the Russian company continues to pay $150US per 1,000 cubic meters for Turkmen gas supplies, although starting in 2009, Gazprom officials have promised to pay (unspecified) “European” prices. Most of these gas supplies are re-exported to Ukraine and a portion of them are then sent on to Europe. (5)

Consequently, what’s good for Turkmenistan undoubtedly will cause gas consumers in Ukraine and Europe to feel considerable discomfort, unless the plans for additional pipeline projects, such as the Trans-Caspian and Nabucco projects, come to fruition. The Turkmen president has expressed interest in these projects, as well as in a number of others – the TAPI pipeline (which continues to progress on paper, if not on the ground), and the Central Asia-China pipeline, which is the only project currently under construction. (6) None of this bodes well for natural gas consumers in the coming heating season.

One further factor to consider is whether or not Turkmenistan actually possesses sufficient gas reserves to supply both the existing and planned pipeline projects. Berdimuhammedow seems confident, assuring CNPC officials that “Preliminary data shows that the underground reserves of Turkmen natural gas are much larger than it was estimated,” at his August 8 meeting with them in Beijing, (7) perhaps referring to the August 5 announcement of the discovery of a new gas condensate field in the Karakum Desert. The South Gutlyayak field, whose total reserves as yet are unknown, is reported to be putting out 200,000 cubic meters of gas and condensate per day in test production. By 2007, Turkmenistan’s natural gas production had reached an annual rate of 69 billion cubic meters (2.43 trillion cubic feet), more than four times as much as its 1998 production.
rate. Some estimates put the country’s total natural gas reserves at 100 trillion cubic feet, (8) but until the results of an independent energy audit being conducted by the British firm Gaffney, Cline & Associates (9) have been published, no one will know for sure how many of his gas supply contracts Berdimuhammedow will be able to honor.

However, this lack of knowledge does not seem to pose much, if any, obstacle to the president’s ongoing efforts to secure more export contracts – regional energy officials seem content to take the president at his word and continue to vie for additional export contracts. Assuming that the results of the energy audit are favorable, the Turkmen government may be able to enjoy playing the gas game for decades to come.

Source Notes:
(2) “Iran, Turkmenistan to hold negotiations on gas imports,” 10 Aug 08, IRNA; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(6) “Turkmenistan’s pipeline prospects: China, Russia, India, or Europe?,” 11 Aug 08, Bank Information Center (BiC) via <http://www.bicusa.org/en/Article.3870.aspx>, accessed 18 Aug 08.
(7) “Turkmenistan offers more gas to China,” 8 Aug 08, ibid.
(9) “Turkmen leader optimistic about country’s reserves of hydrocarbon resources,” 8 Aug 08, ITAR-TASS; BBC Worldwide Monitoring via Lexis-Nexis Academic.

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