2008-01-31

The ISCIP Analyst, Volume XIV, Issue 7

Cavan, Susan

Boston University Center for the Study of Conflict, Ideology, and Policy

http://hdl.handle.net/2144/11847

Boston University
Apparatchiki struggle to remain relevant in transition

With the selection of Dmitri Medvedev as President Putin's heir apparent, the fluidity among the "clans" around the president likely will harden, as the losers in the succession battle grasp for footholds and seek allies in the impending Kremlin reorganization.

While clear winners in the presidential succession, foremost among them President-Select Dmitri Medvedev and his campaign manager and Kremlin Chief of Staff, Anatoli Sobyanin, are easy to identify, it is the status of those left in the cold, whose positions are most difficult to discern. In part, it is Putin's method, following the example set by Boris Yel'tsin, of transitioning former close associates into seemingly powerful positions, when in fact they are being ousted from a presidential inner circle, that serves to cloud the outline of the apparat hierarchy to all but the members of the elite themselves.

In the early years of the Putin administration, certain distinct groups appeared in his inner circle. First among them were the remnants of the Yel'tsin Family, most of whose proximity to Putin gradually eroded as the president brought more of his own advisers into the Kremlin. A few stalwart members with significant Kremlin clout remain, notably Anatoli Chubais, Head of Russia's Unified Energy System (although, as his restructuring program for the organization draws to a close, he may move on to other, less politically, charged tasks). Chubais has proven remarkably resilient in successive apparat shakeouts, but he currently does not seem to have the same authority in Putin's corridors of power that he once wielded. His onetime support of a possible Mikhail Kasyanov presidency might
still be remembered and could be enough to cost him any residual political authority.

Putin's famed St. Petersburg faction consistently has broken into subsets of liberal economists and siloviki. In Putin's Russia, as in Yel'tsin's, liberal usually refers to "western" model economists, whose priorities include integration with European and other western financial and some political institutions, and a lack of concern with a "derzhava" foreign policy that zealously seeks to counter the US and to pursue Russian nationalist, often imperialist, ambitions across the territory of the former Soviet Union. There have been some exceptions to the foreign policy caveat, most notably perhaps, President Putin's "liberal mentor," Anatoli Sobchak. Most of the members of this group, and some of the St. Petersburg siloviki as well, claim a connection to Putin through Sobchak's mayoral offices. Anatoli Chubais appears among the members of this group, as does the chosen presidential successor, Dmitri Medvedev, and Putin government perennials Aleksei Kudrin and German Gref, among others.

The siloviki faction, once thought to be relatively monolithic, also has a heavy lode of St. Petersburghers. Sergei Ivanov and Viktor Ivanov, as well as Igor Sechin and Viktor Cherkesov are all former Leningrad/St. Petersburg associates. While the siloviki faction seemed ascendant, certainly through most of 2007, it is clear that at a critical juncture Putin turned from his siloviki number two, Sergei Ivanov, to his "liberal" number two, Medvedev. Whatever the nature of the turning point, it either caused or derived from a rift in the siloviki faction that jumped to the forefront of public attention with Kommersant's publication of Viktor Cherkesov's "Don't turn our warriors into merchants" article. The fracturing of the siloviki faction has proven a superlatively significant event in Putin's succession. Without united opposition within the Kremlin to a Medvedev presidency, the course of Putin's chosen path of transition has been relatively smooth. The question that looms between now and the elections (and possibly through the immediate aftermath) is whether or not the siloviki will unite to derail or weaken a
Medvedev presidency. Their apparent defeat in the Putin succession struggle could become a unifying force. However, the exchange of escalating corruption allegations among members of the faction certainly has enervated the clan as a whole; the question of their resilience and resurgence is still open.

Some members of Putin's close associates have moved comfortably among the clans. Dmitri Kozak, a St. Petersburger, lawyer by training, and member of Putin's inner circle, was Putin's primary reform proponent, notching extensive reforms of the judicial and administrative systems in earlier years of Putin's presidency. (The scheme of Kozak's reforms may have been grand, but the implementation, as always, is another matter.) Interestingly, Kozak is also a close associate of Dmitry Medvedev's. (2)

Medvedev's own associates, separate from or held in common with the current president, surely will filter into the Kremlin as Medvedev takes on the presidency (after the requisite election, of course). As with every element of this transition, the Kremlin looms large: Who will occupy the Kremlin itself? Will Putin abandon the Kremlin and Novo Ogarevo for governmental digs? Perhaps most importantly to the apparatchiki, how many members of the "Putin Family" will survive this transition with their Kremlin offices and authority intact…and for how long?

Source Notes:
Opposition denied run, threatened with detention

Ending weeks of speculation, Russia’s Central Election Commission (CEC) announced on January 27 that former Prime Minister Mikhail Mikhailovich Kasyanov would be barred from running in the March 2 presidential election. In 2006, Kasyanov, founder and head of liberal opposition party the People’s Democratic Union (PDU), announced his intention to run for President of Russia in 2008. (1) Kasyanov became the PDU’s official candidate in December 2007, but due to the organization’s lack of representation in the State Duma, Kasyanov was required to submit a petition containing the signatures of at least two million supporters. According to the CEC, an examination of the petition submitted on 16 January allegedly “revealed” that 13.36 percent of the 2,067,000 signatures it contained were invalid. Under Russian law, no more than five percent of signatures can be invalid on a petition in support of a candidate. (2) Commission secretary Nikolai Konkin claimed that “in this case, the number of valid signatures is less than 2 million, which provides grounds to refuse registration as a candidate. For this reason, Kasyanov should be excluded from participation as a candidate in the presidential election.” In addition, Kasyanov most likely will face a criminal investigation into his role in organizing the petition. (3)

Allegations that the 80,261 signatures were counterfeit, along with what commission member Elvira Yermakova cited as “other flaws in Kasyanov’s documents submitted for registration” (4) first became public knowledge last week, and are further proof, according to Kasyanov, of the fact that “he is the target of a vast, pro-Kremlin conspiracy to undermine his goal of shaking up an authoritarian political system.” (5) In January 2000, Kasyanov became first deputy Prime Minister under President Vladimir Putin, who had just become
acting president in the wake of Boris Yel'tsin's resignation. After Putin won the May 2000 presidential election, he made Kasyanov his Prime Minister. During Kasyanov’s tenure as Prime Minister, the country saw steady growth, a return to currency stability, and tax reform. He is considered by some to be "the best prime minister in all of Russia's postwar history." (6)

In February 2004, President Putin removed Kasyanov from office. In the year following his dismissal, Kasyanov refrained from public comment on events such as the Beslan hostage crisis of September 2004 and the subsequent decision by Putin to end gubernatorial elections. As Kasyanov stated later, Putin's actions convinced him that “the main goal [of the current government] was to turn the country back to the past and to hold onto power." Kasyanov spoke out publicly against the government at a press conference on the first anniversary of his dismissal, telling reporters to “look around … Just a few years ago, did anyone expect that there would be no independent media left in Russia? That authorities would be fighting 'non-native inhabitants'? That the main enemies would become Estonia and Georgia? That political killings and wars between the secret services would become customary?" (7) and hinted for the first time at a 2008 presidential bid. Within a few months of his speech Kasyanov was under investigation by the Russian Office of Public Prosecutor over his activities while in office, an investigation that Kasyanov claimed was politically motivated. (8)

In April 2006 Mikhail Kasyanov launched the People’s Democratic Union, which became one of the co-founders of The Other Russia, an umbrella coalition of opposition parties (9) in July 2006. Over the next year, The Other Russia organized a series of protests throughout the country, some of which were dispersed violently by police. Kasyanov left the coalition in July after a dispute over how to select a single opposition presidential candidate. (10)

In keeping with his political track record, it is hardly surprising to note that Kasyanov himself viewed his chances of participating in the presidential election
with guarded optimism. When he arrived at the headquarters of the Central Election Commission to submit the signatures and paperwork required for his presidential bid, Kasyanov told reporters present that although he did not foresee a “free or fair election,” his real goal was to “defend the ‘democratic’ institutions [he had] empowered during his time in government,” institutions that he feared were “being destroyed by this current regime.” (11) In an email sent to various press agencies after the CEC made its final decision regarding his campaign, Kasyanov similarly made it clear that he considered himself a victim of the state leadership, writing: “Undoubtedly, the decision not to register my candidacy, as well as all important political decisions emerging in the ‘vertical’ system, were made personally by Vladimir Putin,” and "The country has finally gone on the slippery slope to totalitarianism." (12) He added, "This system, like the U.S.S.R., does not allow any improvement from within or from without," and that "Despite its seeming durability it will inevitably collapse under the weight of its own vices and crimes." (13) Further, Kasyanov’s representatives announced shortly after the decision by the Central Elections Commission was handed down that they will not appeal to the Supreme Court. Due to the difficulty of finding a “law-based solution” inside the “vertical system of authority,” (14) the campaign will not appeal to the courts. Despite calling on the Russian people to boycott the election, Kasyanov ended his statement optimistically, noting that his current setback is not a real loss. “In spite of all circumstances, we have won because we have held our honor and dignity, and we have done all we could in the current situation. Those who think our campaign is over are mistaken. Our campaign is just beginning. Everyone is free to make his contribution to the construction of a new Russia.” (15)

The Central Election Commission's decision not to let Mikhail Kasyanov’s name appear on the ballot is unlikely to have a serious impact on the final outcome of the race. After all, with the latest opinion polls showing his support at just one percent, (16) Kasyanov had little chance of actually winning the election. However, the Central Election Commission's decision may be indicative of a
larger and more serious trend: the Kremlin’s increasing inability to tolerate criticism or non-official influence. (17)

This is reinforced by several of Kasyanov’s attributes. First, Kasyanov would have been the only liberal running for the presidency and the only candidate running without the backing of an established party, despite the presence of the nominally “Democratic” Party leader, Andrei Bogdanov. Bogdanov who encountered meager opposition to entering the race, and his candidacy is considered by many to be a Kremlin creation aimed at fragmenting the opposition. (18) Second, Kasyanov’s years of experience, including time spent in Putin’s own administration, give his claims more weight than those of an outsider. This may have fueled fear that Kasyanov could have used his campaign as a platform from which to criticize President Putin and prospective President Dmitri Medvedev. (19) As Dmitry Oreshkin, an expert on political science in Moscow recently commented, “the current administration generally does not allow an alternative, it is afraid of debate, and not even because it could lose, but simply because it does not want to take part in it.” (20) In an effort to silence its critics, the Kremlin may have only underlined Kasyanov’s message.

On a larger scale, the decision made by the current administration may complicate its relations with countries that believe Russia has lowered the level of democratic participation in the election, which, in turn, could weaken trust in the election’s outcome. When the electoral procedure loses its value, it becomes more difficult for Russia to continue its claim to be a normal law-based and democratic state. (21)

Nevertheless, the election continues. With Kasyanov’s expulsion, it appears that the Central Elections Commission finally has decided on Russia’s presidential candidates, including Dmitry Medvedev, nominated by the United Russia party; Gennady Zyuganov of the Communist Party; Vladimir Zhirinovsky of the Kremlin-
sponsored, xenophobic Liberal-Democratic Party (LDPR); and Andrei Bogdanov, of the nominally “Democratic” Party. (22)

Source Notes:
(6) Ibid.
(7) Ibid.
(10) Ibid.
(11) Ibid.
(15) Ibid.
(17) Ibid.
(18) Ibid.
(19) Ibid.

Russian Federation: Security Services

By Fabian Adami

Trepashkin as bait?

Late in 2003, Mikhail Trepashkin was arrested in Moscow on suspicion of possessing an illegal, concealed firearm. A search of his apartment by law-enforcement authorities supposedly yielded a cache of 30 classified documents, apparently leftover from his time as an FSB officer. As a result, Trepashkin was charged with treason, and transferred to the Matrosskaya Tishina prison, pending trial. Within weeks, Trepashkin had been convicted in a closed-door hearing, and sentenced to four years imprisonment at a “remote settlement.”
At the time of his arrest, Trepashkin was working as defense counsel for two Chechens accused of carrying out the 1999 apartment bombings that strengthened support for a renewed Russian offensive in Chechnya. Having served as lead investigator for a Duma inquiry into the bombings, Trepashkin planned to introduce evidence of FSB complicity in the bombings in an attempt to clear the defendants. (1) As such, his arrest clearly was politically motivated and designed to silence him.

On 30 November 2007, Trepashkin was released from jail, having completed his sentence. Given the allegations against his former employers, his parole could be explained with two reasons. Either the authorities—given the “neutralization” of Alexandr Litvinenko—believe Trepashkin no longer represents a threat, or more worryingly, the FSB believes it would be better for Trepashkin to suffer an “accidental death” on the outside, rather than to die in prison.

In the days following his release, Trepashkin spoke publicly a number of times, addressing both the Litvinenko assassination, and the 1999 bombings. In relation to the former, Trepashkin alleged that Litvinenko and his sponsor Boris Berezovsky were targeted by a dedicated hit squad and also stated that the bombings were carried out with (then Prime Minister) Vladimir Putin's knowledge and were ordered by “somebody from his team.” (2)

On 18 December, Trepashkin was interviewed by Gazeta.ru. During the conversation, Trepashkin made several new statements regarding the Litvinenko case. First, he claimed that he had warned Litvinenko that his life was in danger. Secondly, he alleged that the FSB also had targeted Yuri Felshtinsky, who co-authored the book, “The FSB Is Blowing Up Russia,” with Litvinenko. Trepashkin stated that a team had been sent to Boston—where Felshtinsky resides—with orders to eliminate him. (3) For reasons unknown at this time, the hit on the author was never carried out. Thirdly, Trepashkin stated that he would be...
prepared to travel to Strasbourg, in order to present his evidence before the European Court of Human Rights in support of Litvinenko’s widow Marina. Finally—and perhaps most importantly—Trepashkin claimed that his information on Felshtinsky came “from the FSB,” through a “source that I can’t name.” (4)

Trepashkin’s willingness to testify in Strasbourg is unlikely to concern the Kremlin deeply. But, the possibility that he has an active source within the FSB (presumably a disaffected individual with access) surely is causing consternation in the Lubyanka. It also reveals a third possible motivation behind his release: that the FSB’s hierarchy has discovered that there is a dissenter within its ranks, but needs Trepashkin out in the open as bait, in order to unmask the informant.

If all of the above is correct, Trepashkin probably is now under 24 hour surveillance. And his safety is by no means guaranteed. His “usefulness” will be at an end once the “mole” is identified, and at that point, his life will be worth very little unless he takes action to protect himself.

**Borders: new special forces unit**

During the last two years, Russia’s Border Guard Service has undergone major reforms. In the spring of 2005, General Vladimir Pronichev, the Border Guard Service Chief, announced that R15 billion would be dedicated exclusively to the development of new facilities along Russia’s borders. Then, in the fall of 2005, General Victor Trufanov—Pronichev’s Deputy—announced that R6.2 billion out of the 2006 Budget would be earmarked for new border protection facilities. (5) Two vital aspects of the Border Reform Program were the reintroduction of Soviet-style “Closed zones,” (6) and the switch over from a conscript-based, to a fully professional—or contract—manpower policy. (7) All troops assigned to the service are to be fully professional as of January 1, 2009. (8)

A major part of the construction project has been focused on Russia’s southern borders, firstly due to concern over the safety of Russia’s nuclear facilities and
immigration from Central Asia through Kazakhstan, (9) and secondly, due to concerns about the Caucasus frontier, particularly the border with Georgia, which now is alleged to represent “the main terror threat to the Russian Federation.” (10)

Late in December 2007, FSB Director Nikolai Patrushev met with President Vladimir Putin, in order to report on the Border Guards reforms. During the meeting, Patrushev informed the President that the operation to improve the Caucasus border infrastructure was complete. According to the FSB Chief, 88 new facilities have been completed and put into operation. (11)

The most interesting reform—and one not announced until December 2007—is the fact that a new, dedicated Special Forces unit has been raised from within the Border Guards’ Service. Such units—as yet officially unnamed—are to be issued with the best equipment and weapons, and are designed to be highly mobile and maneuverable. (12) According to Deputy Director Nikolai Rybalkin, these units will patrol the Russian-Kazakh and the Russian-Georgian borders, as well as the vulnerable eastern boundary with the People’s Republic of China. Further Special Forces teams are to be introduced in other sectors if necessary. (13) During the Soviet era, the Border Guards constituted one of the USSR’s most competent forces. If the move to a professional force, and the concurrent creation of a roving elite “troubleshooting” unit are successful, the Border Guards may again constitute Russia’s most capable military force outside of the GRU’s Spetsnaz.

**Update: row linked to Litvinenko**

In November 2007, British authorities made an apparent concession in the Litvinenko murder case. Instead of re-filing extradition charges for Andrei Lugovoi, Scotland Yard’s prime suspect, the Crown Prosecution Service asked Russian authorities to investigate the case themselves, so that evidence against Lugovoi could be secured. Yuri Chaika, the Prosecutor General, responded by
simply refusing to comply. Lugovoi meanwhile labeled the British request a provocation. (14)

Late in December, Chaika spoke publicly about the matter, arguing that the “materials” handed over to Russian authorities by Scotland Yard “do not provide any proof of Lugovoi’s guilt.” Chaika insisted that more evidence should be handed over before any moves could be made. (15) British authorities since have stated that they will not publicize their evidence against Lugovoi. To do so, authorities maintain, would be unproductive: either Moscow would dismiss it out of hand, or it would be used to put Lugovoi on trial, and then “announce” his acquittal. Lugovoi would “not get a non-political trial.” (16)

In mid-December, the Russian Foreign Ministry, headed by Sergei Lavrov, made an admittedly retaliatory move in response to the extradition requests. British Council Offices across Russia were ordered to suspend their activities as of January 2008. (17) Lavrov has played out a dual track argument, claiming that “the whole problem was created by our British colleagues,” who “put forward totally unrealistic demands for the extradition of Lugovoi,” while also arguing that the British Council is guilty of tax evasion. (18) Britain, so Lavrov stated, must “make the first move” to correct the situation. (19)

The Russian Foreign Office’s order has led to an increased game of tit-for-tat between the UK and Russia. Tony Brenton, the British Ambassador in Moscow insisted that the British Council would continue its work, and that its closure would be “illegal” under a 1994 accord between the two nations. (20) For its part, Russia first suspended visa applications for the Council’s staff, and then launched an “explanatory investigation” by the FSB into Russian citizens working for the Council in order to “shield Russian citizens” from becoming involved in “prevocational” [sic]—read espionage—“games of the British.” (21) Finally, on 15 January, the FSB stopped Stephen Kinnock (son of former Labor Party Leader Neil Kinnock), Director of the St. Petersburg office of the British Cultural Center,
on suspicion of driving under the influence of alcohol. Kinnock was held for an hour before being released to the British Consul General. (22)

Whitehall’s response to Mr. Kinnock’s detention was to insist that the intimidation and harassment of British staff was “completely unacceptable,” and to summon Yuri Fedotov, the Russian ambassador in London, to the Foreign Office “for consultations”. (23) On 17 January, the British Council suspended its operations in Russia, because the “campaign of intimidation” vis-à-vis its staff posed a “significant risk” to their safety.

Russian sources have reiterated that the escalating moves against Britain are related directly to the Litvinenko case. Aside from the above comments by Sergei Lavrov, a “diplomatic source” in Moscow claimed that the row could be settled immediately, if Britain cancelled its “unfriendly decisions” against Russia. While the unnamed source spoke directly only of Britain’s visa restrictions vis-à-vis Russian citizens, it is self-evident that the “unfriendly decisions” relate to other matters also. (24)

Andrei Lugovoi obtained a Duma seat in December’s elections. As such, he has Parliamentary immunity, and Moscow will not budge on his extradition. To claim—as Russia has in the past—that his extradition is contingent upon a reciprocal hand-over of Boris Berezovsky is ludicrous. If Lugovoi were handed over, the incentive not to reveal all he knows would be lost. In fact, it would be in his interest to make a deal with the Crown Prosecution Service in return for his knowledge. In turn, Britain is highly unlikely to hand over Berezovsky. Russia’s position makes little sense—other than from the perspective of simply flexing its diplomatic muscle.

Source Notes:
(1) The Moscow Times, 14 Jan 03 via ISI Emerging Markets Database.
(2) See The ISCIIP Analyst, Volume XIV Number 6 (17 Dec 07).
(3) “Former Agent Trepashkin Prepared To Testify Against FSB in European Court’s Litvinenko Case: Interview With Mikhail Trepashkin by Aleksandr Artemyev,” Gazeta.ru, 18 Dec 07; OSC Translated Text via World News Connection.

(4) Ibid.


(6) “Border Service Switches to Contracts” by Boris Dmitriyev, Voenno-promyshlennyi kurier, No 49, 28 Dec 05 – 10 Jan 06; WPS via Lexis-Nexis.


(8) “Russian Border Guard Service To Complete Transfer to Contract Manning in 2008,” Interfax-AVN Website, 14 Jan 08; BBC Monitoring via Lexis-Nexis.

(9) “Russian Chief on Growing Extremism in Urals Federal District,” Interfax, 14 Sep 07; OSC Transcribed Text via World News Connection.

(10) “FSB Chief Inaugurates New Border Complex in Dagestan,” RGVK TV, Makhachkala, in Russian, 14 Nov 07; BBC Monitoring via Lexis-Nexis.


(13) Ibid.

(14) “Litvinenko May Have Killed Himself, Says Russian Accused of His Murder,” The Times of London, 2 Nov 07 via Lexis-Nexis.


Power projection
Military might continues to be a key requirement for Great Power status. Therefore, in order to be a serious player on the international stage a state must possess not only sufficient military capability, it also must be able to project this capability beyond its borders. There are few better ways to project military power than by dispatching a large naval task force to conduct live-fire exercises in the

Russian Federation: Armed Forces
By Lt. Col. Carol Northrup
political backyard of one's rivals. Even more effective is to include long-range, nuclear-capable strategic bombers and front-line strike fighter aircraft.

The Kremlin sought to project Russian military might off the European coastline last week as a Russian naval task force began conducting maneuvers near the Iberian Peninsula. The task force includes the aircraft carrier Admiral Kuznetsov and the guided missile cruiser Moskva. (1) The Northern Fleet—led by the Kuznetsov—left Russia 5 December on a mission to “ensure Russia’s naval presence in key operational areas of the world’s oceans and establish conditions for secure Russian maritime navigation.” (2) The Moskva, which is the flagship of the Black Sea Fleet, joined the task force on 18 January to participate in the exercise. (3) This is the Russian Navy’s first large-scale exercise in the Atlantic in 15 years. (4)

Russia also sought to project air power during the exercise: British and Norwegian Air Forces scrambled fighter jets on 22 January to shadow Russian long-range bombers headed toward the Bay of Biscay to test-fire nuclear-capable missiles. (5) The Russian Navy confirmed that two TU-160 bombers (NATO reporting name “Blackjack”) conducted tactical missile launches off the Spanish and Portuguese coastlines, and that both countries had been informed in advance. (6) According to Russian public relations sources, over 40 aircraft will participate in the final stages of the exercises scheduled to end on 1 February. (7) In addition to the Blackjack bombers and their SU-33 fighter escorts from the Kuznetsov, TU-95 Bear and TU-22 Backfire strategic missile carriers (long-range bombers), MiG-31 Foxhound and Su-27 Flanker fighters, IL-78 refueling aircraft and A-50 reconnaissance aircraft will conduct exercises to enable pilots to “practice reconnaissance techniques and bombing naval groups of a hypothetical enemy, engage in training fights and conduct air patrols.” (8)

Earlier in the exercise, the Moskva test-fired an SS-N-12 cruise missile. (9) The SS-N-12 Sandbox is a liquid-propelled supersonic missile capable of carrying
either a 350 KT nuclear warhead or a 1000kg high explosive warhead. (10) According to a Russian Navy spokesman, the missile—which was last fired in 2003—successfully engaged its target. (11)

Another time-honored method to demonstrate military strength is a military parade. The Soviets were masters of the full-scale military parade during the Cold War with tanks, anti-aircraft artillery, and ICBMs rolling through Red Square, row after row of uniformed Red Army soldiers marching by and aircraft screaming overhead. Earlier this month, the Kremlin announced that it would resume this public display of military might on 9 May, celebrating the anniversary of VE-Day and the inauguration of the next Russian president. (12) More than 6,000 servicemen are scheduled to be reviewed by Defense Minister Anatoli Serdyukov and by Commander of the Moscow Military District, Army Gen Vladimir Bakin. (13) According to the Russian Defense Ministry, modern combat hardware, including the new TOPOL-M mobile ICBM will be highlighted. (14) The last Soviet military parade on Red Square was held in November 1990. VE-Day parades resumed in 1995, but have not included military equipment. (15)

Meanwhile, Chief of the General Staff, General of the Army Yuri Baluyevsky once again reminded the world that Russia has a very capable nuclear arsenal. During remarks broadcast on state-run television, Baluyevsky said that Russia would use nuclear weapons in preventative strikes, if necessary, to protect itself and its allies. (16) “We do not intend to attack anyone” Baluyevsky said, “but we consider it necessary for all our partners in the world community to understand … that to defend the sovereignty and territorial integrity of Russia and its allies, military force will be used, including preventatively, including with the use of nuclear weapons.” (17) Baluyevsky’s remarks do not represent a shift in Russian policy, but they do serve as a reminder of its nuclear policy, which represents yet another means of projecting Russian military capability to the international community.
For all this posturing and projection of force, Russia still packs a relatively small military punch. In order to put together a naval task force capable of carrying out the stated mission of “ensuring Russia’s naval presence in key operational areas of the world’s oceans,” (18) the Russian Navy had to cannibalize both the Black Sea and Northern fleets; the task force represents almost all of the sea-worthy ships currently in the Russian navy. While the task force is showing the flag in the Atlantic, there is nothing left to show at home in the Barents and Norwegian Seas, where fishing disputes often occur. (19) The Kuznetsov carries a very limited number of jets and no attack aircraft; it is incapable of projecting force on land in the style of a US aircraft carrier. Also, the Kuznetsov reportedly will go in for lengthy repairs at the end of its current deployment. (20)

Though the navy was the first casualty of the Soviet collapse, the strategic bomber fleet also is extremely old and in disrepair, and there are credible reports of grave problems in ground-based strategic forces, as well. Resumption of strategic patrols last August has strained further the decrepit Bear and Blackjack bombers. Stockpiles of spares to fix the TU-160 jet engines have been depleted and the Blackjacks may be grounded permanently in two or three months—their engines worn out and no spares available. (21) And Russian defense analysts report that all is not well with ICBM and SLBM test launches. Some Russian rocket specialists report that warheads from last year’s test launches “seriously deviated” from their intended targets. (22)

In Russia all this matters little. The naval war games, public displays and aggressive rhetoric undoubtedly are intended as another forceful reminder to NATO and the US that the Kremlin will not sit by idly while the West pursues policies Moscow sees as contrary to its interest: Missile defense bases in Poland and Czechoslovakia, NATO “encroachment,” European recognition of Kosovar independence. The real audience, however, is internal. Large-scale naval deployments, world-wide patrols by nuclear-capable bombers and public displays of modern military hardware remind Russians of the days when the world
cowered in the shadow of Soviet military strength. As a nationalist leader who claims restoration of Russian military might as one of his great achievements, President Putin is demonstrating to his people that Russia once again appears capable of projecting its power.

Source Notes:
(2) “Russian Navy Begins Exercises in the Atlantic,” RIA Novosti, 21 Jan 08 via Lexis-Nexis.
(3) Ibid.
(6) Ibid.
(12) “Russia to Show New Weapons at Red Square Parade for First Time Since USSR Days,” BBC Monitoring (Interfax-AVN website, Moscow, in Russian), 15 Jan 08 via Lexis-Nexis.
(13) Ibid.
Putin pays visit to Bulgaria
During his two day visit to Bulgaria, January 17-18, nominally to honor the 130th anniversary of the Russo-Turkish war, which secured Bulgaria’s independence, (1) Vladimir Putin stated that Bulgaria’s turn toward NATO should not preclude the development of close relations with Moscow, and that, “The most important thing for us is that Bulgaria does not pursue its interests at the expense of the security interests of other countries.” (2)
Putin’s visit included a heavy emphasis on developing close ties in the energy sector. Progress in this field took place on two fronts. The first included the signing of a contract worth nearly six billion dollars for the construction by Russian firms of a nuclear power plant in the northern Bulgarian town of Belene. Secondly, Russia signed a trilateral agreement with Bulgaria and Greece to pave the way for construction of an oil pipeline between Burgas and Alexandropoulos that will transport Russian oil from terminals in the Black Sea region to the Aegean Sea. (3) Putin’s companion on the trip, First Deputy Prime Minister and presumed successor to the Russian presidential office, Dmitri Medvedev, held private meetings regarding energy policy with the Bulgarian President and Prime Minister, (4) demonstrating Putin’s ongoing preparations for Medvedev to take over the office, following elections later this year. The centrality of energy concerns to Russia’s foreign policy was underscored by Russia’s acquisition of a controlling stake in Serbia’s government-controlled oil monopoly only days later on January 22, (5) as well as recent discussions between Gazprom and the Nigerian government concerning possible purchases of natural gas resources in the African nation. The mostly harmonious visit to Bulgaria did not pass without small but vocal protests against Putin.

While in Bulgaria, President Putin did not restrict his focus solely to energy matters. The issue of Kosovo and its potential declaration of independence from Serbia predictably arose as a topic of conversation. Suggesting close relations between Putin and his hosts in Sofia, one of Putin’s foreign policy advisors, Sergei Prikhodko, singled out Bulgaria’s stance on the Kosovo issue as worthy of praise, noting that although Bulgaria adheres to the EU’s position in favor of Kosovar independence, it has a better understanding of the Serb position than other European states. (6) Although Bulgaria maintains nominal support for Kosovar independence, Prikhodko’s focus on Bulgaria’s “moderate” stance toward the situation in Kosovo suggests that the Kremlin is seeking to improve its relations with Sofia by accentuating what positive aspects of Bulgarian policy it
can find. Moreover, the recent attention given to Bulgaria indicates that former
Soviet satellite states remain in the focus of Russian foreign policy.

Russia and the west continue row over Kosovo
Russia’s dispute with the west over Kosovar independence was emphasized by
Putin during his stay in the Balkans: “Our position in this respect is utterly clear:
any decision on Kosovo must be approved by both sides.” (7) This position was
echoed days later by Senator Mikhail Margelov, head of the Federation Council’s
foreign affairs committee. (8) During a press conference the same day, the
Russian President went a step further: “A unilateral declaration of independence
by Kosovo would be illegal and immoral and Russia cannot support such a
solution to the problem,” (9) and also indicated that any resolution of the Kosovo
issue “will set a precedent in international practice.” (10) While Putin did not
elaborate on his remark about “precedent,” it is evident that he was referring to
the separatist Georgian regions of Abkhazia and South Ossetia, whose attempts
to break from Georgian rule have Russian support. In reference to these other
volatile areas, Russian Deputy-Minister for Foreign Affairs, Grigori Karassin,
emphasized this point: “If we come to the conclusion that in the current
international situation, the right to self-determination is more important than
territorial unity, then it would have to be applied to all regions of the world and not
only those in which it pleases our partners.” (11) Foreign Minister Sergei Lavrov,
however, then tried to play down this angle, characterizing any claims that
Russia had threatened to destabilize the Caucasus in response to a declaration
of independence by Kosovo as, “absolutely false.” (12) Nonetheless, the Russian
Foreign Ministry signaled that any resolution of the Kosovo situation could cause
ripples beyond the Balkans.

Leaving the Caucasus aside, Lavrov returned to the issue of Kosovo in remarks
that were anything but cryptic. Assailing the US and EU’s stance in favor of
Kosovar independence, he stated, “We must do the utmost to solve [the issue]
within the framework of international law and the non-violation of borders…
Anything else is illegal and cannot be recognized.” (13) Lavrov used the Kosovo matter as a launching pad for a wider attack on the European Union, saying “a reorganization of the entire European architecture” would be prominent among Russia’s foreign policy aims in the new year. (14) Russia recently made a provocative move in the debate over Kosovo by warning Pristina that Kosovo would never be allowed to join the United Nations or other international institutions in which Russia has a significant voice, drawing reactions from the US and UK in the form of statements affirming their commitment to Kosovar independence. (15) Although these threats may have little impact on the eventual resolution of the Kosovo issue, such maneuvering raises the stakes in the already intense Kosovo debate.

Source Notes:
(1) “Russia’s Putin begins two-day Bulgaria visit”, Agence France Presse, 17 Jan 08 via Lexis-Nexis.
(2) Ibid.
(3) “Putin arrives in Bulgaria for trip with presumed successor as Russia tightens energy grip”, Associated Press Worldstream, 17 Jan 08 via Lexis-Nexis.
(4) Ibid.
(6) “Kremlin aide says Bulgaria is more moderate on Kosovo independence”, ITAR-TASS, 18 Jan 08 via Lexis-Nexis.
(7) “Decision on Kosovo must be approved by both sides”, ITAR-TASS, 17 Jan 08 via Lexis-Nexis.
(10) “Any Decision on Kosovo Status Will Create Precedent, Putin Tells Bulgarian Media”, 17 Jan 08, Interfax; BBC Monitoring International Reports via Lexis-Nexis.

(11) “Russia toughens stance”, Agence France Presse, 18 Jan 08 via Lexis-Nexis.


(13) Ibid.

(14) Ibid.

(15) “Russia warns Kosovo that if it declares independence it will never become a UN member”, Associated Press Worldstream, 17 Jan 08 via Lexis-Nexis.

Russian Federation: Energy Politics

By Creelea Henderson

Putin introduces Medvedev and South Stream

Russia is forging ahead with strategic deals to inject the South Stream pipeline into Western Europe, while Dmitry Medvedev makes his debut as the face of the future petro-behemoth.

It might have been Natasha’s first ball drawn from the imagination of Leo Tolstoy. At Dmitri Medvedev’s foreign debut as President Putin’s heir-apparent in Bulgaria this January the media clucked over the soft-spoken Russian candidate, noting with approval his combination of youth and command over high-powered negotiations and charmed by his bashful reserve in the public spotlight. At a signing ceremony marking the conclusion of a deal that will bring Bulgaria online to the South Stream pipeline project, scheduled to come online in 2013, Medvedev was spotted sidling up to Putin. Both men grinned. Medvedev blushed, visibly. (1)
The blushing debutant was in Sofia to conduct negotiations as part of his job with Gazprom, the Russian energy giant where he is Chairman of the Board. He also was there, as noted, to be introduced into foreign affairs as Putin’s successor to the Russian presidency. The event, and in particular, Medvedev’s role in hammering out terms by which Gazprom will hold a 50 percent stake in pipelines on Bulgarian territory, raised the question as to whether Medvedev has any intention of retiring from Gazprom when he assumes the role of president in March. But then, in the sphere of foreign policy at least, the two jobs are not altogether distinct from one another.

Medvedev’s participation in negotiations to build South Stream underlines the dual role of power in Russia—in the energy industry and in the halls of government. The power that Gazprom holds represents both sides of the same coin, a coin that has currency in Western Europe, as recent deals with Italy, Hungary, Bulgaria, Austria and Serbia have shown. Those deals are expected to increase Russian influence over energy supplies with the completion of the South Stream pipeline, which is being built by Gazprom and Italy’s Eni. After crossing the Black Sea to Bulgaria, the pipeline will split into two branches—one running northwest through Hungary to Austria, and the other south to Greece and then west to southern Italy. (2)

It is fitting that the future president was on hand to launch Russian energy policy into the next era. In addition to the South Stream accords, a series of developments set in motion this January will assure Russia a dominant position in the European energy market for the foreseeable future. Austrian crude oil and natural gas company OMV AG signed an agreement with Gazprom to jointly develop Baumgarten, a central European gas trading hub, said by industry experts to be continental Europe’s most important trading platform. (3) Although skeptics among European parliamentarians remain wary of a Russian monopoly, the governments themselves remain deadlocked over alternatives to the Russian
supply line. Indeed, since Russia began pressing forward with South Stream, European nations have been scrambling for a share of the pipeline.

“We don’t have to convince anybody,” Putin said when asked whether he had European support to go ahead with South Stream. “They ask us for [gas] every day, especially during the fall and winter.” (4)

Putin is correct in his assertion that Europe has no viable means of procuring energy in the near future, apart from Russian downstream supply lines. At present, Gazprom supplies a quarter of European gas volumes (5), a share that is expected to double with the creation of the Baumgarten trading hub. (6) The hub will be fed by a branch off the South Stream pipeline, which will transport up to 31 billion cubic meters of gas annually from Siberian and Central Asian fields upstream. (7)

Tracing the pipeline upstream, each stage marks a foreign policy coup for Gazprom and for Russia: Gazprom and OMV each have a 50 percent stake in Baumgarten; Hungary and Bulgaria both will be given 50 percent ownership over the pipeline passing through their territories, an arrangement that Bulgarian Economy Minister Petar Dimitrov touted with evident satisfaction. “In no other agreement signed by Gazprom have such favorable conditions been agreed,” he assured the Bulgarian press, (8) a claim that was not altogether accurate, considering that Serbia likewise has been granted a 50 percent share in the pipeline. That accord was sealed after the Serbian cabinet agreed to sell Gazprom a 51 percent stake in the state-owned Naftna Industrija Srbije (NIS) for $600 million, a price tag that represents just one-fifth of the Serbian company’s market value. (9)

Italy, meanwhile, has been a partner in the project from its inception in November 2006, when Eni and Gazprom signed an agreement to expand Russia’s gas transport network into the European Union. (10) In its capacity as partner, Italy
enjoys a privileged position in South Stream’s operation, including a plum share in upstream production granted to Eni in April 2007, when the last of Yukos’ assets, Siberian gas-producing companies ArcticGaz and Urengoil, were auctioned off by the Russian government. (11) Gas from those Siberian facilities will make up a portion of the volume that will be routed to Italy through the South Stream pipeline.

In their eagerness to participate in the new energy network, the countries along South Stream’s overland route have signed on as minority shareholders in the project. For Gazprom, this is a brilliant solution to the “Ukrainian problem,” as transit deals are explicitly ruled out (12), in favor of an efficient system of bilateral agreements. Each country is responsible for moving gas across its territory, an arrangement that effectively strengthens Russia’s leverage with transit counties. This flexibility will allow the Kremlin to act as the central manager of Europe’s energy supply system in the medium term.

Certainly, for Medvedev it was an auspicious debut.

Source Notes:
New term, new cabinet, “new” Saakashvili?
With his mandate reduced to almost half his support during his first term (when he garnered 96% of the vote), Saakashvili has received a powerful call from his electorate to take a different tack during his next term in office. With his first term cut short by protests from a “united” opposition of ten disparate political parties (reduced to nine following the Labor Party’s decision to back Shalva Natelashvili
as its presidential candidate), Saakashvili will have to demonstrate convincingly that he is responding to the concerns voiced during both the protests and the campaign season.

The official results of the 5 January election, announced on 13 January, were as follows: National Movement incumbent candidate Mikheil Saakashvili, 53.47%; the National Opposition Council (the official name of the 9-party opposition) candidate Levan Gachechiladze, 25.69%; oligarch Badri Patarkatsishvili, 7.1%; Labor Party candidate Shalva Natelashvili, 6.49%; New Rights leader David Gamkrelidze, 4.02%; economist Georgy Maisashvili, 0.77%; and Imedi party candidate Irina Sarishvili, 0.16%. (1)

Most of the exit polls and parallel vote tabulations (PVTs) conducted during the elections predicted results similar to those given by official sources. Four of Georgia’s largest television stations—Georgian Public Broadcaster (GPB), Rustavi 2 TV, Mze TV and Adjara TV—sponsored an exit poll which was administered by the Georgian Institute of Public Affairs (GIPA), Ilia Chavchavadze State University, the Caucasus Institute for Peace, Democracy and Development (CIPDD), headed by Ghia Nodia, and the Georgian Foundation for Strategic and International Studies (GFSIS), under the leadership of Alexander Rondeli. The poll showed Saakashvili ahead with 56.2% of the vote, followed by Gachechiladze (27%), Patarkatsishvili (5.9%), Natelashvili (5.2%), Gamkrelidze (3.5%), Maisashvili (1%), and Sarishvili (0.2%). (2)

The results of a parallel vote tabulation (PVT) conducted in 394 districts (out of more than 3500) by the International Society for Fair Elections and Democracy (ISFED) showed Saakashvili winning with 50.8% of the vote and Gachechiladze second with 27.2%. None of the remaining candidates garnered more than 8% according to the PVT results: Patarkatsishvili (7.3%), Natelashvili (7%), Gamkrelidze (4.3%), Maisashvili (1%) and Sarishvili (0.2%). (3) A Ukrainian organization, All European Affair, published exit poll results, cited on Russian
television, claiming that Gachechiladze had won 31% of the vote and Saakashvili 24.4%, with Shalva Natelashvili coming in a close third at 20.3%. The organization is headed by Leonid Belousov, who declined to state who had commissioned the poll. (4)

PVTs and exit polls were a powerful tool in the Rose Revolution because they provided evidence that was used to accuse Shevardnadze of committing massive electoral fraud. As might be expected, this has contributed to the politicization of the polls. In particular, the exit poll sponsored by the television stations (most of which, opposition groups contend, support Saakashvili) received considerable criticism from the opposition. However, there was no evidence to suggest that the exit poll had been tampered with or was conducted in a way that favored the incumbent.

The leaders of the National Opposition Council responded to the official results by demanding a recount and staging protests. Georgian law mandates a run-off if no candidate wins 50% of the vote plus one additional ballot, and the opposition contended that Saakashvili had garnered less than the required amount. Their public demonstrations included a rally that drew a crowd of thousands immediately following Saakashvili’s 20 January inauguration and a smaller demonstration staged by the Party of People in front of the American embassy on 22 January. (5) Signs at the various protests declared, “OSCE backs rigged elections” and “U.S.A. supporter of dictatorship.” (6) The opposition fiercely criticized the US statement welcoming Saakashvili’s electoral victory. The opposition’s actions produced a brief spate of negotiations with Speaker of Parliament and Interim President Nino Burdjanadze, as well as talks with several foreign dignitaries, including US Deputy Assistant Secretary of State for European and Eurasian Affairs Matthew Bryza. Bryza responded to opposition criticism of US support for the elections by stating that, observers had seen “irregularities of concern, but there was no systematic attempt we saw to use
massive fraud to change the result of the election." (7) He encouraged opposition leaders to focus their efforts on contesting the spring parliamentary elections.

The 5 January vote also included a referendum on Georgia’s NATO aspirations and the possibility of holding new parliamentary elections in May. One of the opposition’s chief points of contention with Saakashvili’s administration had been the decision to hold parliamentary elections in the fall of 2008, rather than spring 2008 as originally scheduled. In the referendum, 72.5% of the voters supported Georgia’s bid to join NATO, and 69.8% opted for new parliamentary elections this spring. The date for new elections has not yet been set. (8)

Both the opposition protests and the overwhelming vote in favor of new parliamentary elections signal the need for Saakashvili to adopt a different strategy in his second term. Frequently heard complaints include a neglect of domestic Georgian issues in favor of diplomatic visits to foreign countries and the failure to resolve Russia’s embargo on Georgian wine. Saakashvili recently has made overtures to the Russian leadership, but whether this will produce results remains to be seen.

Prime Minister Lado Gurgenidze has assembled a new cabinet for Saakashvili’s second term. It includes seven new members of the cabinet, including some with little or no political experience. The ministers of finance, agriculture, energy, and defense have remained the same, in addition to the controversial Minister of the Interior Vano Merabishvili. Among those joining the cabinet are think tank members Ghia Nodia (head of CIPDD) as Education Minister and Temur Iakobishvili (executive vice president of GFSIS) as Minister for Reintegration, formerly known as the Minister for Conflict Resolution Issues. The decision to recast the Ministry for Conflict Resolution Issues as the State Ministry for Reintegration may signal a shift in tactics for the Saakashvili government. Iakobishvili was formerly a diplomat – his selection as minister may indicate a decision to rely on negotiation rather than force to rein in the separatist republics.
Not surprisingly, de facto Abkhazian President Sergei Shamba took umbrage at the change, stating that his "government" would refuse to negotiate with any representatives of the new ministry. (9)

The decisive vote for new parliamentary elections and the relative success of the opposition candidates demonstrate the desire of a significant portion of Georgia’s population for a viable opposition. Currently, Saakashvili’s National Movement party dominates parliament. Saakashvili stated in his inauguration speech that building Georgia’s economy and addressing poverty will be one of his primary goals. (10) Yet it is not the rural poor whom Saakashvili needs most to win over, but instead the electorate in Tbilisi, the center of the protests and a location of relative prosperity. Saakashvili fared poorly in the capital, with Gachechiladze emerging the winner in nearly every district. (11)

Saakashvili’s administration has brought more stability to the capital in the last four years. The lights are on and its police force is noticeably less corrupt than under Shevardnadze. Yet it was also in the capital that protesters were teargassed and dispersed using rubber bullets. The memory of Saakashvili’s violent reaction to the protests on 7 November has strengthened his opponents. If he wishes his party to maintain its parliamentary stronghold, Saakashvili must win back Tbilisi.

In the meantime, the nine-party opposition has presented the government with a memorandum of its demands, threatening to stage permanent protests beginning on 15 February if its conditions are not met. The demands include the resignation of the cabinet following the spring parliamentary elections; the reconfiguration of key media bodies, including the board of the Georgian Public Broadcasting Channel and the Georgian National Communications Commission; and equal involvement at every level of the electoral apparatus. (12)
Both the November protests and the current tactics of the opposition confirm one legacy of the Rose Revolution – protests are a major tool for attempting regime change in Georgia. Although the November protests failed to remove the incumbent from office, they did provoke a new election. For now, it seems that protests may be a more successful predictor of new elections in Georgia than constitutionally mandated terms.

Source Notes:
(1) “Official results in comparison w/parallel vote tabulations, opinion polling & exit polls,” Government of Georgia, 15 Jan 08 via Georgia News Digest (GND), 15 Jan 08.
(2) Ibid.
(3) “PVT results give Saakashvili a lead,” Civil Georgia, 6 Jan 08 via GND, 6 Jan 08.
(4) “According to alternative exit poll no presidential candidate gathered 50% of votes,” Prime-News, 5 Jan 08 via GND, 6 Jan 08.
(5) “Opposition protest outside U.S. Embassy,” Civil Georgia, 22 Jan 08 via GND, 23 Jan 08.
(7) “State Department official Bryza sees room for improvement in Georgia,” RFE/RL, January 25 via GND, 27 Jan 08.
(8) “70 percent of Georgians vote for joining NATO in a referendum,” Associated Press, 11 Jan 08 via GND, 13 Jan 08.
(9) “‘Reintegration’ in ministry name angers Sokhumi,” Civil Georgia, 28 Jan 08 via http://www.civil.ge/eng/article.php?id=17001.
(11) Kristine Pertaia, “Election results: Saakashvili won the regions, Gachchiladze takes Tbilisi,” Georgian Times, 14 Jan 08 via GND, 15 Jan 08.
Is new Kyrgyz government up to challenges ahead?

Despite protests by the opposition over the December parliamentary elections, it seems as though the election results will stand, with President Kurmanbek Bakiev’s Ak Jol party enjoying a majority so overwhelming (71 of the 90 parliamentary seats) (1) as to make the opposition’s role almost insignificant. Theoretically, this should eliminate all political obstacles from President Bakiev’s path and give him the freedom to address the country’s most pressing problems quickly and efficiently. Unfortunately, the problems may be piling up faster than the president can suggest remedies for them. All of Central Asia is facing an energy crisis, as the region is beset by the harshest winter it has experienced in decades, oil and natural gas supplies tighten and prices continue to rise, resulting in rolling power outages. Uzbekistan, which supplies natural gas to parts of Kyrgyzstan, Tajikistan, and Kazakhstan has cut back its exports, (2) further exacerbating an already increasingly dire situation.

All of the Central Asian states continue to be economically hamstrung by the fact that, for the most part, the old, centralized and ever more dilapidated Soviet infrastructure is still in place, including the electricity grid, fuel pipelines, railroad lines, and waterways and irrigation networks. Even the system of roads and highways is much the same as it was during Soviet times. Had all of the Central Asian states maintained visa-free regimes for inter-regional trade and travel, the flaws of the Soviet transportation and highway system might cause fewer problems. Unfortunately, at one time or another, all of the Central Asian governments have utilized trade restrictions, visa requirements, and border
closings in order to exert pressure on one another and protect themselves from various perceived threats. Perhaps the most egregious of these sanctions is the Uzbek government’s use of landmines to guard its side of the Tajik and Kyrgyz borders. While these types of trade restrictions have hindered interstate commerce and damaged relations between the countries, it is the energy crisis that could plunge all three Ferghana Valley states into a socio-economic abyss.

Kyrgyzstan and Tajikistan, in particular, rely heavily on electricity and natural gas supplies from Uzbekistan not only to heat family residences, but also to supply power to business and industrial sectors in certain provinces, especially those close to the Uzbek border. As the cold weather has caused pipelines to freeze and gas pressure to drop, many areas of Uzbekistan also have suffered power cuts. (3) This, coupled with Kyrgyzstan’s and Tajikistan’s outstanding debts for Uzbek gas supplies, has prompted the Uzbek government to reduce fuel exports to its neighbors, forcing many schools, hospitals and industries to shut their doors until power is restored. Because the old Soviet infrastructure is still in place, neither Kyrgyzstan nor Tajikistan has a viable alternative for procuring fuel and electricity. The Uzbek government already has increased the price of its gas exports to Kyrgyzstan by 43%, to US$145 per 1,000 cubic meter, although only 30% of this increase is to be passed on to individual consumers. (4)

As the effects of the fuel shortage widen and inflict further damage on his country’s economy, President Bakiev’s main suggestions for resolving the problem have been to urge parliament to speed up the privatization of state-owned enterprises and “to introduce more boldly but in a well-thought-out manner new financial instruments,” such as government-issued long-term bonds for such projects as the Kambarata-1 and Kambarata-2 hydroelectric power stations. The president’s strategy is to make domestic industry more efficient and therefore more attractive to foreign investment. (5) While this is certainly a laudable goal, it is a long-term goal and is very unlikely to solve any of Kyrgyzstan’s current and most pressing problems, even if parliament is
acquiescent to all of Bakiev’s wishes. Adding to the country’s problems is that fact that due to a drop in the water level at the Toktogul reservoir, in 2008 Kyrgyz exports of hydroelectric power to Uzbekistan will be reduced by 75%. During a press conference, Deputy Industry, Energy and Fuel Resources Minister Akylbek Tyumenbaev admitted that “With every year it gets harder for us. We cannot meet growing demand for energy from the population, housing sector, small and medium business.” Tyumenbaev also told journalists that electricity shortages will likely not abate until the construction of the Kambarata-2 hydroelectric power station is completed. (6)

The figures on economic growth published by Kyrgyzstan’s National Statistics Committee paint a rosy picture: GDP for 2007 rose by 8.2%, industrial growth increased by 7.3% and industrial production grew by 10.3%. However, inflation also rose by 20.1% (7) and will no doubt climb even higher in coming months, prompting Bakiev to deliver a warning to parliament and urge MPs to take action. The president told MPs that further price hikes, aging infrastructure and a shortage of trained professionals were the most serious risks facing Kyrgyzstan’s economy, as well as the country’s dependence on the import of raw materials. (8) Bakiev’s determination to focus on economic issues seems genuine, thus far.

On a recent trip to Moscow, his new prime minister, Igor Chudinov, made Kyrgyzstan’s energy woes his main focus, soliciting Russian investment for both the hydropower industry, as well as in the search for new domestic oil and gas resources. Chudinov met with Aleksei Miller, chairman of the Gazprom’s board of directors, to discuss Gazprom’s involvement in prospecting for oil and gas fields, as well as in building a second natural gas main. (9)

The Kyrgyz economy certainly is in dire need of further investment and of a total overhaul of its energy supply system, to say nothing of its industrial sector, however, the fact remains that no amount of foreign investment is likely to solve its present crisis, a crisis which appears to be dangerously close to spiraling out of control, as Kyrgyz citizens’ most basic needs are no longer being met. Fuel,
food, and access to education and healthcare are the most basic of amenities that even a poorly functioning state is expected to provide for its population. After years of neglecting their populations’ needs and allowing their countries’ infrastructures to decay—in certain sectors, almost to the point of collapse—the Kyrgyz, Tajik and Uzbek governments seem to have reached a point where they are no longer able to offer even the most essential services to their citizens. If the energy crisis continues, these governments face the prospect of economic collapse, which may well provide the catalyst for widespread popular unrest.

Source Notes:
(3) Uzbekistan Sees Rare Protests Over Gas Shortage,” 25 Jan 08, Reporting Central Asia, No. 528, Institute for War and Peace Reporting via http://www.iwpr.net/?p=rca&s=f&o=342233&apc_state=henh.
(4) “Kyrgyzstan, Uzbekistan agree new price for gas supplies,” 9 Jan 08, Kyrgyz Channel 5 TV; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(8) “Kyrgyz president warns of possible high inflation in coming months,” 10 Jan 08, Xinhua General News Service via Lexis-Nexis Academic.
UKRAINE

Ukraine’s leadership war II

In December 2007, as Yulia Tymoshenko took the helm of Ukraine’s government for the second time, the most often expressed concern of domestic political pundits was not how the new Prime Minister would deal with the country’s gas debt, high poverty level, corrupt judiciary, or final WTO preparations. Instead, most feared that President Viktor Yushchenko would be unable to find a way to work with Tymoshenko, thereby dooming their renewed alliance and their reform agenda.

This fear has proven justified, as President Yushchenko steadily has increased his “input” into the day-to-day functioning of the government, undercutting several ambitious initiatives and causing confusion within government circles about just who is in charge of what.

Over the last eight years, the two have been allies, rivals and a little bit of both. Today, Tymoshenko’s personal popularity far outstrips Yushchenko’s, with the presidential election less than two years away. Since Ukraine’s political system is confusing at best, duties and responsibilities of the President and Prime Minister often overlap, creating a dependence on power politics to assert ones primacy.

In particular, during the last several weeks, Yushchenko slowed the government’s plan to privatize 26 government assets (or the government stakes
in those assets), including a group of regional energy distribution entities. He also spoke out against Tymoshenko’s attempts to remove intermediary corporations from Ukraine’s gas agreements, in spite of his loud support for such efforts during the September parliamentary campaign, and he has rejected the Prime Minister’s calls to switch to “market-based” fees for transiting Russia’s gas to Europe.

In most cases, Yushchenko’s opposition to Tymoshenko’s proposals seems to be based on a desire to blunt any political capital she may gain from their success, rather than on ideological or economic grounds.

On 16 January, the Cabinet of Ministers was due to give final approval to its privatization plan for 2008, which reportedly included putting 26 enterprises up for sale. At the request of the presidential secretariat, however, the decision was postponed.

The next day, President Yushchenko requested that six regional energy distribution companies—“oblenergos”—be excluded from the list. To remove these companies from the oversight of the state Naftohaz gas company, his office said, may result in the “insolvency of that company.” (1)

The president no doubt missed the irony of this criticism.

**The Naftohaz Insolvency**

Almost three weeks earlier, Tymoshenko’s team discovered that Naftohaz already was virtually bankrupt; its auditors, Ernst and Young, refused to sign off on its year-end accounts over worries that it would not survive as a “going concern.” This refusal could have triggered a technical default, allowing international bond holders to call in repayment of all loans in full. According to the government, approximately $2.6 billion could have been called in under default clauses, undercutting international trust in the country and further
burdening the already strained state budget. Despite numerous red flags (Fitch, a leading international financial rating agency, placed long-term currency ratings on a negative watch in October), the president seemingly took no action. (2)

In its international newsletter, the Bloc of Yulia Tymoshenko (the Prime Minister’s parliamentary bloc) speculated that the Naftohaz situation was left “unresolved as a time-bomb for the incoming Orange government.” (3)

The newsletter placed blame for the situation squarely on the shoulders of the outgoing government of Viktor Yanukovych – making no mention of President Yushchenko. However, upon discovering the problem, the government acted alone to resolve it.

Before taking office, incoming Vice Prime Minister for European Integration Hryhoriy Nemyria, Minister of Fuel and Energy Yuriy Prodan and Minister of Finance Viktor Pynzenyk met with bondholders to develop a plan to avoid default. As a result, the newly reworked state budget for 2008 offered bondholders a State Sovereign Guarantee, with an available $400 million subsidy earmark for Naftohaz. Thanks to the guarantee, Fitch analyst Anton Kravchenko said, “We are going to give them a little more time to produce the statements (of accounts).” (3)

**Oblenergo privatization and kompromat?**

Given the situation inside Naftohaz, the concern that privatization of oblenergos would damage the company’s solvency seems misguided. In fact, the president himself recently altered course and suggested that his concern about this particular example of privatization actually is based on concerns about government corruption. “I would not want the sale of an oblenergo to be connected with the shadowy ‘pocket’ agreements of a certain political power concerning distribution of these objects to specific people,” he told 1+1 television on 28 January. (4)
The clear implication, of course, is that Tymoshenko’s privatization plan is designed to transfer property from the state to her own backers. The President further suggested that these companies could be given as bribes to members of parliament “so that they vote as somebody wishes.” The head of state offered no specific details to support his stated concern. “For now,” he said, “I only have this warning to make: I’m in the know. I have my grapevine.” (5)

Ukraine’s media, which is free and regularly discusses corruption issues, has reported no evidence of such plans by the Tymoshenko government.

Prime Minister Tymoshenko generally is viewed by the public as the country’s most radical fighter against corruption and is remembered for conducting Ukraine’s only open, transparent auction for a state asset during her first term as prime minister. That public auction sold the Kryvorizhstal steel plant to Mittal Steel for $4.8 billion.

The intimation of planned wrongdoing by Tymoshenko, however, is worrying for its lack of evidentiary support. Of course, Ukraine’s public officials must be held accountable and checked carefully, particularly given the significant levels of corruption historically present throughout all state institutions. But, just as the country must fight its history of corruption, so too must the use of unfounded criminal charges and claims against rivals be halted.

Whether the charge was serious or simply meant to throw Tymoshenko off stride will become clear over time. For now, the charge seems to have received little domestic attention. However, it signals very difficult relations between the head of state and head of government, and could undermine the public’s already shaky faith in its leaders.
It also seems to be only the first of a potential large number of coming battles between the two leaders.

**What to do with RosUkrEnergo?**

Of most immediate concern is an apparent disagreement over how to deal with Ukraine’s reliance on the gas broker RosUkrEnergo (RUE), which is a joint venture of Gazprom and several Ukrainian individuals with ties to Ukraine’s political elite.

Yushchenko opposes Tymoshenko’s plan to remove the intermediary from the country’s gas agreements with Russia immediately. To do so, he says, would jeopardize the country’s below-market price agreed upon with Gazprom and RUE in December 2007. “The price we have today, of 179 dollars per cubic meter,” he said on 20 January, “is the lowest price on the whole perimeter from the Baltic to the Caucasus.” Moreover, “We have a rather low price for gas. This is good.” (6)

In contrast, for almost four years, Tymoshenko has railed against RosUkrEnergo, which controls the countries gas negotiations, as well as the system for importing gas from Russia and Turkmenistan. She has criticized payments received by RUE that appear to raise costs for both Ukraine and Gazprom, and has suggested that unnamed politicians benefit financially from RUE’s involvement. “It is a front company, an artificially created company, so that gas coming to Ukraine comes through a filter that will catch a significant amount of money,” she told the New York Times in 2006. (7)

It is worth noting that RUE reported earnings of around $800 million from its work as an intermediary during 2006. (8) As of 28 January, earnings for 2007 do not appear on the company’s website.

RUE also has been heavily criticized in Europe for the “very opaque” nature of the company. (9) In response, just last week, during a visit to Brussels,
Tymoshenko once again pledged to remove all intermediaries from the gas industry and initiate direct gas agreements with Russia. She also reiterated the government’s demand that the price paid by Russia for transit of gas through Ukraine to Europe be raised equally with the price paid by Ukraine for gas.

This demand no doubt comes because Ukraine is now being charged much more for gas than stipulated in agreements approved by Yushchenko and then-Prime Minister Yanukovych in December 2007.

Because Central Asia could not meet its designated gas volumes to Ukraine, RUE is making up the difference with Russian gas, for which it is charging not the $179 per cubic meter as promised, but $314 per cubic meter (pcm). (10) Ukraine likely will be supplied with 2-4 billion cubic meters of Russian gas, billed at $314 pcm in the next several months. Already, Ukraine has developed a gas debt of over $800 million because of the increase in price – which was announced three days before President Yushchenko trumpeted the $179 pcm price as a reason to avoid asking for renegotiation of the country’s gas deal. (11)

Furthermore, RUE’s domestic joint venture with Gazprom, UkrGazEnergo, was given the right to supply gas for two years to the best paying industrial consumers in Ukraine. This left the state gas company Naftohaz to supply and collect from the lowest paying residential consumers.

Mismanagement and the loss of industrial customers are the primary reasons cited by experts for Naftohaz’s near default on its international bond agreements – and it shouldn’t be a surprise. In January of 2006 on ICTV’s “Freedom of Speech,” then-opposition leader Tymoshenko debated allies of Yushchenko over the effect of allowing UkrGazEnergo to enter the gas distribution market in Ukraine. She warned that the effect could be “bankruptcy and the loss of our state company.” (12) These worries were dismissed, as Yushchenko approved the deal.
Now, Naftohaz must be saved and the country must find a way to pay (or renegotiate) a price for gas to which it never agreed. Therefore, the ability of Ukraine’s two most powerful politicians to come to an agreement regarding Ukraine’s strategy for negotiating with Russia over gas is a crucial test to their commitment to working for the country’s interests.

So far, Tymoshenko has not responded to Yushchenko’s claims of potential corruption, and she has not criticized his position on RUE. Unlike 2005, when Prime Minister Tymoshenko regularly entered into verbal sparring matches with Yushchenko and his allies, in 2008 she wisely has chosen to remain quiet – with one exception. Last week she reminded the media of previous statements that she will run for president against Yushchenko in 2009 if the two cannot work harmoniously in government together.

Nevertheless, both Tymoshenko and Yushchenko will travel to Moscow this month – separately. They will hold separate meetings with separate press conferences, and they will either present a united or a divided front. When both trips are over, it will be clear whether the two can work together to implement reforms, or whether the campaign for president has begun.

Source Notes:
(1) “?????? ??? ??? ????? ??????????? ?? ?????????????? (Yushchenko has his own propositions regarding privatization),” Ukrayinska Pravda, 1519 CET (updated 1602 CET), 17 Jan 08 via www.pravda.com.ua.
(2) BYuT Inform Newsletter, Issue 55, 26 Nov 07.
(3) “Ukraine guarantees Naftohaz debt,” Reuters (carried in the Financial Post), 5 Jan 08 via Lexis-Nexis.
(4) 1+1 Television (Ukraina TCH), 28 Jan 08. For video of Yushchenko’s comments, see www.youtube.com/watch?v=7C2elDts-iU&eurl=http://tap-the-
talent.blogspot.com/ Also, “Yushchenko stands for privatization without ‘political tips,’” ForUm, 1039 CET, 28 Jan 08 via www.for-ua.com.
(5) Ibid.
(6) Inter TV, 1800 GMT, 20 Jan 08 via Lexis-Nexis.
(9) “EU: Questions Linger about Russian-Ukrainian Gas Deal,” RFE/RL, 12 January 06.
(11) Ibid.