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Russian Federation: Executive Branch

By Susan Cavan

**Russia’s security (strategy) delayed**

A long delayed Russian National Security Strategy, which had been in development since 2004 but only "was given a new impulse in June 2008" was presented to the Russian Security Council meeting March 24, with clear expectations of agreement and approval from the membership. (1) Instead, the Secretary of the Security Council (and former Director of the Federal Security Services) Nikolai Patrushev found himself explaining to the waiting press assembled after the meeting that, while the "Security Council members had earlier agreed [on] a draft strategy, they made proposals on its improvements." (2) Patrushev added that "many of these proposals were diametrically opposed" and an unidentified source claimed that once the Security Council session closed the doors to discuss the draft "nearly all the participants came out with new amendments." (3)

Russia’s current Security Concept, adopted by the Security Council in December 1997, now viewed as outstripped by developments both within Russia and beyond it. It is the product of a Russian government that was still "transitional," as opposed to the putatively more consolidated Putin (and Medvedev) era regimes. The new Security Strategy, which was completed only the day before the scheduled Security Council meeting meant to approve it, (4) is the product of "an interdepartmental work group under the Security Council Office, which included representatives from several government bodies: the Government Office, Presidential Executive Office, Offices of the Presidential Plenipotentiary Envoys to the Federal Districts, the Russian Academy of Sciences, as well as
experts and major corporations,” (5) and the timeframe it is meant to consider extends to the year 2020.

In opening the discussion on the new Strategy at the Security Council meeting, Patrushev was careful to differentiate the objective of a new draft Strategy from a new Security Concept: “The Strategy forms a new appraisal of modern national and foreign threats to national security and strategic risks that have a restrictive influence on the stable development of our nation. For all of these reasons, it differs significantly from the current National Security Concept.” (6) Therefore, this new Security Strategy, should it ever be approved and adopted, is primarily a transitional document itself.

On the subject of foreign policy, the draft Strategy, according to Patrushev, sets as Russia's priorities "the creation of good conditions for the nation’s stable development and ensuring national safety. This means that in the long term, we will aim to build international relations on the principles of equality and mutual cooperation between governments, respect for the international law, providing real and equal security. At the same time, in order to defend its national interests, Russia will conduct a rational and pragmatic policy; costly confrontations and a new arms race are out of the question." (7)

The Security Council's decision not to endorse the current draft and talk of a variety of "diametrically opposed" proposed additions to the draft have fueled speculation over the cause of yet another delay in its adoption. Several reports note that both overtures from the US and an upcoming meeting with the new US president made a "resetting" and reworking of the international section of the Strategy a serious consideration. (8)

It should be noted that a group of American "sages" met with the Security Council, President Medvedev, and Prime Minister Putin in the days leading up to this Security Council meeting. One group, led by former US secretaries of state
Henry Kissinger and James Baker, and including another former secretary of state, George Schultz, as well as former Defense Secretary William Perry and former Senator Sam Nunn was joined by former Russian Prime Minister Yevgeni Primakov, former Foreign Minister and former Security Council Secretary Igor Ivanov, and former Chief of the General Staff Yuri Baluyevsky. These informal gatherings of individuals who previously held quite high level positions were "designed to improve Russia-US relations and produce recommendations for Russian and US leaders." (9)

Earlier in the month, the Security Council welcomed an American delegation led by former senators Chuck Hagel and Gary Hart. (10) It would seem that the Russian leadership is not suffering from a paucity of inputs from its American colleagues, officials and former US officials on the subject of the Russian-American relationship. With a meeting planned during the April G-20 Summit between US President Barack Obama and Russian President Dmitri Medvedev (presumably including Prime Minister Vladimir Putin as well, at some point), there is certainly a sense of change in the air; clearly, this impression was strong enough to give Russia's security leaders pause before committing to a defined characterization of US-Russian relations in a new security strategy.

Of course, there are other issues of contention in the Russian draft Security Strategy. Several analysts have identified disparate divisions over the origins of Russia's strongest security challenges, as well as the interplay of domestic politics as holding up approval of the Strategy. According to President of the National Strategy Institute Stanislav Belkovsky, the delays in adopting the strategy are a result of the tension between business interests and questions of national security. In other words, the familiar division of the apparat between siloviki and "liberal" economists makes it difficult to "reconcile the[ir] interests" even within a national security framework. (11)
There are other suggestions that, rather than personal interests at play, it is
disagreement over the identification of the main adversary that forestalls
adoption of the Strategy. Igor Korotchenko, a member of the Defense Ministry’s
Public Council notes, "NATO’s eastward expansion – is it a real threat or
propaganda aimed at consolidating the electorate? Finance Minister Alexei
Kudrin and…Patrushev would probably give different answers to that question."
(12)

However, Belkovsky emphasizes the tie-in of business interests by noting that
"the main external threat is China," but the Russian leadership is not prepared to
commit to this in the Strategy while its energy companies are negotiating for
Chinese loans. (13)

Whatever the cause of the new delays in adopting a National Security Strategy,
at least two elements are illuminated by the debate. First, the Security Council
indeed appears to be reviving as a forum for Russia’s key leaders to meet,
discuss, and clearly even disagree over policy. Given the Security Council's
unique placement and design, any sign of revitalization bears watching. It
provides one of the few institutional arenas where Putin and Medvedev meet
formally to discuss issues, and therefore may allow glimpses into Russia's teeter-
totter of power between president and prime minister. The nature of the debate
over the Security Strategy also provides an opportunity to flesh out the level of
commitment within the Russian leadership to its current foreign policy, as well as
to identify the rifts among those leaders, and possibly permits an opening for
change.

End note: Security Council membership
The current iteration of the Russian Security Council is led by Secretary Nikolai
Patrushev, although meetings often are chaired by President Medvedev. Prime
Minister Putin not only attends, but in the case of the March 24 meeting, was
provided the opportunity to address an issue not on the agenda (specifically the
Ukraine-EU Declaration). Before discussion opened on the draft Security Strategy, Putin made the following pointed remarks: "While implementing plans for Ukraine’s gas transit system a key factor – and for us this is also important – is the amount of gas pumped, and it is stated so there. This is linked to the possibility of loans being repaid. It is clear that this gas cannot come from anywhere except from the territory of the Russian Federation." (14) (Please see Western Regions below for an analysis of the Ukraine-EU Declaration.)

According to meeting reports, the full membership of the Council is not present at all meetings. Most frequently, meetings are attended by the President, Prime Minister, heads of "power organs" and government ministers, legislative representatives, as well as the heads of the presidential and governmental apparats.

**Membership of the Security Council of the Russian Federation(15)**

*Dmitri Medvedev*, President of the Russian Federation
*Aleksandr Bortnikov*, FSB Director
*Boris Gryzlov*, Chairman of the State Duma
*Sergei Lavrov*, Minister of Foreign Affairs
*Sergei Mironov*, Chairman of the Federation Council
*Sergei Naryshkin*, Head of the Presidential Administration
*Rashid Nurgaliyev*, Minister of Internal Affairs
*Nikolai Patrushev*, Secretary of the Security Council
*Vladimir Putin*, Chairman of the Government (Prime Minister)
*Anatoli Serdyukov*, Minister of Defense
*Sergei Sobyanin*, Deputy Chairman of the government and Head of the Government Apparat
*Mikhail Fradkov*, Director of the Foreign Intelligence Service
*Nikolai Vinnichenko*, Plenipotentiary Representative of the President to the Urals
*Viktor Ivanov*, Director of the Federal Narcotics Service
*Anatoli Kvashnin*, Plenipotentiary Representative of the President to Siberia
Ilya Klebanov, Plenipotentiary Representative of the President to the North-West Region
Aleksandr Konovalov, Justice Minister
Aleksei Kudrin, Finance Minister
Nikolai Makarov, Chief of the General Staff
Yuri Osipov, President of the Russian Academy of Sciences
Georgi Poltavchenko, Plenipotentiary Representative of the President to the Central Federal District
Vladimir Pronichev, First Deputy Director of the FSB and Head of the Border Service
Grigori Rapota, Plenipotentiary Representative of the President to the Volga Federal District
Oleg Safonov, Plenipotentiary Representative of the President to the Far East Federal District
Vladimir Ustinov, Plenipotentiary Representative of the President to the Southern Federal District
Yuri Chaika, Procurator-General
Sergei Shoigu, Minister of Civil Defense, Emergency Situations, and Natural Disasters

Source Notes:
(1) "Security Council to approve RF national security strategy to 2020," 24 Mar 09, 9:07 AM EST, ITAR-TASS via Lexis-Nexis Academic. This quote is attributed to an unidentified "Kremlin source."
(4) "Security Council to approve," ITAR-TASS, Ibid.
Russian Federation: Domestic Issues and Legislative Branch

By Rose Monacelli
The real competition at Sochi

The 22nd Olympic Winter Games at Sochi do not begin officially until 2014, but the real competition is already underway. On April 26, the citizens of Sochi will choose not only their mayor for the next five years, but Sochi’s official face of the Olympic Games. The winner of the upcoming election does not just open the festivities, but will have tremendous input during the period leading up to the Games, including over the construction of an entirely new $12.5 billion Olympic venue. With such high stakes, it is hardly surprising that the election has devolved into a political circus as a parade of national figures including politicians, major opposition figures, leaders of industry, and even a former Bolshoi prima ballerina, as well as the head of Sochi’s arm wrestling federation (1) have stepped forward in hopes of entering the race.

The candidate to beat is the United Russia-backed, current acting mayor of Sochi, Anatolii Pakhomov, the former vice-mayor who took over last January after Mayor Dzhambulat Khatuov was promoted to First Vice-Governor of Krasnoyarsk Territory. (2) Other local contenders include Yuri Dzaganiya, of the local Communist Party, and Union of Right Forces co-founder Boris Nemtsov.

During the 1990s, Nemtsov held posts ranging from regional governor of Nizhniy Novgorod, fuel and energy minister, first deputy prime minister, and State Duma deputy, and he continues to be a major opposition figure. (3) He is well-known for his efforts to point out corruption in the current administration, which he alleges already has turned the local population against the Olympic building project. Nemtsov currently is running on behalf of the anti-Kremlin Solidarity movement to “protect Sochi from the Olympic Games.” He argues that the city, located 900 miles south of Moscow, should be only the ceremonial home of the Olympics and that the actual events should take place in the north, where facilities already exist. (4) On Monday, he reiterated his position in an open letter to President Dmitri Medvedev that argued that Sochi is ill-equipped to house the Olympics and that the project would be more extensive, take longer, and cost...
more than originally estimated, both financially and in environmental damage and displaced locals. Nemtsov also noted that that he and others were preparing a “critical report” about preparations for the Games. (5)

As recently as last week Nemtsov had cited as evidence a lack of local media coverage and the fact that he still had not received official confirmation that he would be allowed to run, when calling the current contest a “key election at a perfect time,” (6) due to its potential to illustrate to the rest of the world the level of existing corruption in the Russian government. On Monday, however, Nemtsov’s point was proven for him when two unidentified assailants doused him with ammonia as he exited his Sochi campaign headquarters. Unsurprisingly, the situation since has devolved into a one-sided war of words after Nemtsov accused youth activists from Kremlin-backed Nashi during an interview yesterday with Ekho Moskvy. Nashi and government spokespersons, on the other hand, have remained silent on the topic. (7)

Until the ammonia-throwing incident refocused attention on Nemtsov, the newest candidate to enter the race, well-known oligarch Alexander Lebedev, had been monopolizing the spotlight. Lebedev, who is increasingly considered the face of the new opposition, is making a second attempt at entering Russian politics after a failed bid to become mayor of Moscow in 2003. (8) He is a former KGB operative and currently is a major Aeroflot investor, but until the March 16 announcement Lebedev appeared to be focusing his efforts on expanding his media empire. Not long after he clashed with the Kremlin in January over his plans to arm the reporters at Novaya gazeta, the independent Moscow-based newspaper that he co-owns with Mikhail Gorbachev, he also acquired London’s failing Evening Standard newspaper. At the time, Lebedev estimated that in order to keep the Evening Standard afloat, he would have to spend in excess of $43 million over the next three years. He recently purchased two FM licenses and announced plans to start two talk radio stations, including one in English, in Moscow. (9)
Of course, the mayoral race in Sochi may be the perfect opportunity for Lebedev to expand his audience further. Just as he often tells reporters that he is less interested in making money than in spending it on “good causes,” Lebedev already has begun his foray into politics to voice his dissatisfaction with the current administration and to drum up anti-Kremlin sentiment. He is candid about his view that the success of the opposition in the upcoming mayoral election will help onlookers gauge the extent to which public support for the current government has waned over the past year. “We could show what an election is,” declared Lebedev, who subsequently offered himself as a “guinea pig” for the experiment. (10) Before he entered the political arena, Lebedev called the Sochi games “one of Prime Minister Vladimir Putin’s pet projects, an idiotic expenditure of money,” (11) but he has not expanded on his platform beyond announcing his plans to run as an independent.

Even though Lebedev has refrained from connecting his candidacy to the Independent Democratic Party (IDP), which he and Gorbachev founded last September, his actions to this point have been in line with IDP’s stated goals, including legal and economic reform and the establishment of a strong, independent media. (12) Whether or not Lebedev is using this election as a means of strengthening the IDP may not actually matter, however, as election officials have not given official approval of his candidacy.

At its heart, the mayoral election in Sochi is less about who controls the city than it is a signal of the future balance of power in the country. Because Putin already has promised the world that the 2014 games would be a “major international event and celebration for the whole Russian nation,” (13) he and the government now have to ensure that the next mayor (and subsequently, local authority over the project), remains under United Russia’s control.
Until recently, this seemed guaranteed, but events of the past year have taken a
toll on United Russia’s popularity. In fact, the longer the economic crisis
continues, the more likely it is that United Russia’s dominant position will erode.
The party has lost three contests in the past month, including last week’s regional
election in Murmansk, the Tver City Duma, and the Smolensk mayoral election,
in which United Russia finished third. (14) The Murmansk results are particularly
notable because the regional governor, Yuri Yevdokimov, chose to back Sergei
Subbotin, the independent who won with 61 percent of the vote, and not United
Russia’s candidate, leading many to wonder about the sudden loss of loyalty
among party members. (15)

Even in the wake of the three unexpected losses, there is no reason to think that
United Russia’s hold over the Russian political scene will lessen significantly in
the near future. Despite the plethora of challengers, most still assume that
Pakhomov, who is both the acting leader and the only candidate to have spent a
significant amount of time in the city, will win on April 26.

At the same time, United Russia, and the current administration, could lose even
if they win. First, the other parties will only benefit from the national and
international interest in this hotly contested election. Despite a probable
Pakhomov victory, the sheer number of opposition groups involved in the election
is evidence of a weakening of United Russia and its leadership.

Second, and perhaps more essentially, if Nemtsov was correct in his prediction
that this election will serve to show the world just how corrupt Russian
government practices are, then efforts to win an election in their Olympic
showcase city through coercion, intimidation, and violence might result in a public
relations nightmare. In a Monday press conference from Sochi just hours after
Nemtsov was attacked, Putin spoke against “politicians who use the Olympics to
further their own goals.” (16) No one should be using ammonia, either.
Source Notes:


(6) Ibid.

(7) Ibid.

(8) “At Russian Olympic Site, Games Begin,” Ibid.


(10) Ibid.

(11) “At Russian Olympic Site, Games Begin,” Ibid.


(13) Tony Halpin, “A former spy and a murder suspect will fight to be mayor of $12bn Olympic city,” Times Online, 18 Mar 09 via
Russian Federation: Security Services

By Fabian Adami

GRU to survive?

In the last four months there has been considerable confusion over the status and future of Russia’s military intelligence directorate, the GRU. Early in November, reports (strenuously denied by the Defense Ministry) emerged that the agency’s Chief, Valentin Korabel’nikov, had resigned in protest at planned military reforms. Then in February, Moskovskiy komsomolets reported that GRU would be stripped of its Spetsnaz and strategic intelligence capacities, leaving it to deal only with tactical or theater matters. Korabel’nikov would be retiring rather than resigning, and since he had failed to nominate a successor, his replacement would be drafted in from SVR, Russia’s Foreign Intelligence Service. This effectively would have signaled the demise of GRU as an independent entity. (1)

On 17 March, Nezavisimaya gazeta claimed that the 67th Special Forces Brigade—GRU’s most decorated force—was one of the units being targeted for disbandment (2), while Argumenty nedeli reported that more than ten other elite GRU groups either would be shut down or transferred to SVR or MVD. (3) Both articles alleged that Korabel’nikov had written his resignation, but had not signed
or submitted it yet, because he still hoped to persuade his deputy to take over. (4) Once more, reports on GRU's alleged fate resulted in a brusque response from the Defense Ministry.

Two days after the aforementioned articles were published, Colonel-General Vasili Smirnov (Deputy Head of the General Staff), noted that rumors of an SVR takeover were “total nonsense,” and insisted that GRU would “continue to exist as a separate military intelligence body” (5) with Korabel'nikov in charge. Technically of retirement age, Korabel'nikov’s tenure has been extended for a further two years with personal approval from President Dmitri Medvedev. (6) A further report quoting an unnamed source in the “intelligence community” claimed that Korabel'nikov had “expressed his willingness” to carry out some reforms, and affirmed as “out of the question” the idea of GRU being subsumed by SVR. (7)

Izvestia (8) and Pavel' Felgenhauer (9) claim that the 67th (Berdskaya) Brigade will be disbanded. As such, it is possible that some kind of a deal has been brokered between Korabel'nikov and Defense Minister Anatolii Serdyukov, whereby GRU loses a part of its Special Forces capacity, but maintains its overall independence. In light of the reality of FSB encroachment on other agencies’ turf in the past, such a compromise agreement must be viewed as a victory. One question remains to be asked: were the stories of an SVR takeover deliberate leaks designed to provoke public and military outrage, thereby forcing the civilian leadership at the Defense Ministry into this arrangement?

Kazakh border improvements
Since the spring of 2005, Russia’s border guard service has carried out a massive program of reform and improvement. Much of the R15 billion budget allocated to the changes has been spent in the Caucasus district: 72 new border stations have been built, troops have been issued with the latest personal weapons, while large numbers of new infra-red and radar sensors have been
Now that issues on the Georgian border (apparently) have been resolved, the focus of the reform and modernization program is being switched to Central Asia, and specifically to Russia’s 7,500 KM border with Kazakhstan.

The reason for the need to reform the Kazakh border can be found in statistics quoted early in March by Vyacheslav Dorokhin, First Deputy Chief of the Border Guards Service. Dorokhin claims that in 2008, 50% of all narcotics (140 kilograms of cocaine, 830 kilos of “vegetation-based” drugs, and 28.2 kilos of “synthetic” substances) seized by law-enforcement entered the country via Kazakhstan. If these figures are even close to being legitimate, the Kazakh border represents a major national security risk.

On 12 March, Major-General Oleg Kortelaynen, Chief of the Border Guards’ Directorate for Analysis and Coordination conducted an interview with Krasnaya zvezda. Kortelaynen broadly repeated Dorokhin’s assertions about narcotics trafficking and laid out some of the changes that have been and will be made in the region. First, rather than one overall regional command, the Kazakh border is to be divided into more organic “territorial” sectors, meaning that each outpost or section of troops will be responsible for a smaller area, hopefully making patrols more efficient. Second, construction was completed on five command posts for these new units in 2008, and 39 more are due to be completed by the end of this year. Troops on the Kazakh border also will be provided with the same improved lodging facilities, updated weaponry and surveillance equipment as those in the Caucasus sectors.

Security against militants from the Caucasus and narco-traffickers from Central Asia obviously are vital matters for the Russian government. But, there is one glaring omission so far in the border reform plans, namely Russia’s historically explosive border with China. Russia continues to sell Beijing massive quantities of weapons, and the potential threat emanating from that country cannot have
escaped attention. It surely must be only a matter of time before the focus shifts eastward.

In brief: Dzhanibekov-Focus on Russia
Early in December, Islam Dzhanibekov, a former Chechen guerilla leader living in Turkey, was gunned down near his home in Istanbul. Turkish authorities initially did not point fingers, preferring instead to expound a number of theories for his assassination, including an internecine struggle. Given that the city has a significant exile population, this idea could not be dismissed out of hand. However, the fact that a standard assassination weapon (an MSP double-barreled pistol) was found at the scene seemed to indicate that one of Russia’s security services was responsible for the hit. (13)

As of early March, Turkey’s Intelligence Service (MIT) had taken over the investigation from police. The hand-over occurred because law-enforcement officials initially now are convinced that Russian intelligence is responsible not only for Dzahnibekov’s death, but for the murders of two other Chechen exiles (Gazi Edilsultanov and Ali Oseav), killed in September and on February 27, respectively. (14) Even if Turkish intelligence can prove beyond a reasonable doubt that the assassinations were ordered by Moscow, there is little that can be done beyond expelling intelligence personnel, stepping up counter-intelligence activities, and registering a diplomatic protest.

Source Notes:
(1) See The ISCIP Analyst, Volume XV, Number 8 (19 Feb 09).

(4) Ibid.

(5) “Russian General Denies Merger Plan For Military, Foreign Intelligence Services,” ITAR-TASS, 19 Mar 09; OSC Translated Text via World News Connection.

(6) “Intelligence General Korabel’nikov To Stay In Office For Two More Years-General Staff, Part 2,” Interfax, 19 Mar 09; OSC Transcribed Text via World News Connection.


(8) “Russian President, Defense Minister’s Speeches, Bulava Probe, GRU Cuts Assessed,” Izvestia, Moscow, in Russian, 19 Mar 09; BBC Monitoring via Lexis-Nexis.

(9) “Medvedev Publicly Supports Serdyukov,” Eurasia Daily Monitor, Volume 6 Issue 53 via www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=34731&tx_ttnews%5BbackPid%5D=13&cHash=c1c4ced872.

(10) See The ISCIP Analyst, Volume XV, Number 2 (9 Oct 09).


(12) “Russia: Border Service Analyst On Need To Reinforce RF Border With Kazakhstan, Interview with Major General Oleg Kortelaynen, Chief of the Directorate for Analysis and Coordination of the Border Guard Department of the Border Service of the Federal Security Service. Time and place of interview not
given. Kortelaynen notes that the border between Russia and Kazakhstan, which extends for more than 7,500 kilometers, is not protected sufficiently. He says that this border is the main barrier against the rapid increase in narcotics trafficking in Russia. Facilities must be constructed for the border infrastructure to stop the penetration of it by international terrorists, illegal migrants, and criminals. ‘A New look for the Border with Kazakhstan,’” Krasnaya zvezda, 12 Mar 09; OSC Translated Text via World News Connection.

(13) "Russian Trace Suspected In Murder of Former Chechen Field Commander in Istanbul," Ekho Moskvy Radio, 11 Dec 08; OSC Translated Text via World News Connection.


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**Russian Federation: Armed Forces**

By Lt. Col. Erik Rundquist

**Russian military reform – some economic considerations**

The latest proposal for Russian military reform has maintained its high level of government rhetoric and in some cases public outcry. Only the global economic crisis seemingly has captured more headlines than the "new outlook for the Russian army" in recent months. Needless to say, both issues are critical to Russia and both are closely connected. Military training and education decisions are linked with economic concerns as small schools throughout Russia are closing in the name of reform and consolidation. Some procurement programs for newer weapon systems, crucial to Defense Minister Anatolii Serdyukov’s reform, also have been targeted. In addition, manpower and fiscal constraints may hinder reforms. On March 17, 2009 an extended meeting of the Defense Ministry was held in Moscow. To highlight the importance of this meeting,
Russian President Dmitri Medvedev was in attendance (his first appearance at this forum). At the meeting, General of the Army Nikolai Makarov maintained that last summer’s clash with Georgia was, “… a catalyst which accelerated the adoption of the decision [to reform].” (1) Will the global economic crisis act as an inhibitor to these same reforms?

**Education and training**

State Secretary and Deputy Russian Defense Minister General Nikolai Pankov highlighted that the 64 military schools throughout Russia are strong candidates for cost reductions, in support of Serdyukov’s reforms. (2) In this case, Pankov plans to consolidate education centers in a total of ten “backbone military schools” consisting of six military academies, three military and scientific centers, and one university. These consolidation efforts are planned to be completed by 2013. (3) On the surface, there may be potential synergies with collocated specialists in an educational setting. However, this advantage is being lost at the grassroots level with some protests having occurred at facilities targeted for closure. (4)

Lieutenant General Viktor Goremykin, chief of the military education directorate, notes that the education system has to modernize and the decision to reform was taken “well before the onset of the economic crisis.” (5) Part of the modernization implies consolidating redundant functions to support a smaller military force. To illustrate, military communications schools at Kemerovo, Tomsk, Ryazan, and Ulyanovsk may be disbanded with their training missions consolidated at another facility, or these facilities may “re-role” into another function to support a different mission. To complicate matters for government planners, Goremykin noted, some schools may remain geographically separated, owing to Russia’s massive size. In some cases “structural subunits” may remain and fall under the control of a core facility. (6)
In response to a question concerning the economic impact of changing and consolidating the training system, Goremykin acknowledged that his directorate employs approximately 128,000 military and civilian employees, along with another 12,000 doctors of sciences and candidates of sciences. Goremykin admitted some of these educators “might be lost” (7) and it is unlikely that educators would be the only group subject to cuts. As institutions are consolidated, facility support staff (engineering, utility, ground maintenance, etc.), plus facility administration (clerical, planning, and leadership) logically would be part of this equation. In smaller communities, this could have a significant impact on local economies.

As to be expected, the prospect of base closures has resonated among some alarmists. Gennadii Zyuganov, leader of the Communist Party of the Russian Federation, called these educational reforms, “… an absolute gamble, destructive for the army.” (8) Serdyukov countered that not all of the institutions would be completely dissolved, again bringing to mind that “structural subunits” might remain. (9)

Along with formal military education, tactical training and field exercises are important to the reforms. Like formal military education, tactical training costs money, time, energy, and military resources to conduct. Ground Troops spokesman Colonel Igor Konashenkov commented on a recent exercise in the Kemerovo region, where a motorized infantry brigade conducted river crossings, offense and defense operations, and heavy engineering tasks. The training exercise included over 5,000 troops, 400 armored vehicles/hardware, fighter and reconnaissance aircraft, and various types of helicopters. (10) During this exercise, Konashenkov remarked, “for the first time, we will study time, normative and other parameters of action by a motor-rifle brigade, which was set up as part of the Siberian District’s shift to a new shape ….” (11)
In addition, Defense Minister Serdyukov announced, among other things, the creation of a Collective Rapid Reaction Force with major exercises planned with Kazakhstan for September 2009 and a strategic-level exercise with the Republic of Belarus entitled “Zapad-2009.” Serdyukov added, “It is envisaged to equip these forces with modern armaments and military equipment, specially designed uniforms and kits.” (12) President Medvedev also noted that the number of training exercises will continue to grow and that the government will not hesitate to spend money on these activities. (13)

Arguably, training is the lifeblood of military forces throughout the world. While the aforementioned exercises appear to run the gamut from standard tactical tasks and joint force live-firing, to more complex combined force operations involving international partners, are these exercises synchronized to Serdyukov’s new reforms? Perhaps, but not fully. President Medvedev announced that the Security Council will meet and approve a national security strategy “in the near future” to guide Russian efforts through 2020. This strategy will form the foundation for long-term defense plans. (14) The potential pitfall for aggressively pursuing expensive training exercises is that absent a national security, how does the military know what to train for? Truth be told, the majority of simple tactical tasks should convert easily, regardless of the grand strategy. In contrast, this may not be the case with the more complex exercises. If not planned for properly, the military may find itself out of step with strategy, having wasted precious rubles on training for inappropriate tasks. It is clear that the Defense Ministry needs to monitor these training ventures, especially in a fiscally constrained environment.

Procurement
In addition to training, procurement and purchasing of new equipment are vital to implementing Serdyukov’s reforms. Mikhail Barabanov of the Moscow Defense Journal noted that the recent 15 percent budget reduction across all departments, in conjunction with increased inflation and devaluation against the
dollar, have created a perfect storm. The result is that Russian military budgets may be reduced to 2007 spending levels, while attempting to increase combat capabilities. With regards to the defense budget, certain elements, such as servicemen’s pay, civilian pay, housing, and logistic support are not likely to be touched. This leaves procurement and reform as the likely targets to absorb the budget cuts with combat training as another potential victim. (15) Along similar lines, Russian Deputy Defense Minister Lyubov Kudelina agrees that military housing and salary costs likely will be preserved, but surmises that rear services such as food, fuel, clothing, and lubricants may be cut. However, she wonders, “If we stop buying fuel and lubricants, what combat training can we talk about?” (16)

Some items for procurement within the defense budget have been identified as receiving smaller allocations, such as the GLONASS satellite navigation system, which is being reduced by two billion rubles and the Russian Air Force’s fifth generation fighter project, which may lose 938 million rubles this year. (17) Deputy Defense Minister, Colonel-General Vladimir Popovkin, commented that the financial crisis would not affect arms procurement. He noted that over 5 trillion rubles has been funded already for various projects to include the purchase of 70 strategic missiles, 30 Iskander missiles, 300 tanks, and dozens of aircraft and helicopters over the next three years. (18) Having said that, Popovkin acknowledges many of these purchases may include existing excess systems that have been stockpiled in warehouses and factories, such as fourth generation aircraft like Su-30MK fighters, Su-27SM fighters, and even MiG-29s that were not delivered to Algeria. (19) Popovkin also admitted that money will continue to flow in the beleaguered “Bulava” submarine-launched ballistic missile project. Despite its recent failures, this missile is continuing to undergo testing while being manufactured in parallel. (20) Clearly, there are some risks for opening a production line for a complicated missile system that has not fully completed operational tests. Thus, a race will be taking place to complete the testing phase and to have the missile operationally ready and delivered to the fleet by the end of 2009.
Manpower

Manpower cuts are considered another important cornerstone of the Russian reforms, particularly in the savings that may be generated for the armed forces. While savings may be reaped by the Defense Ministry, will this reform just create another problem with unemployed troops in the workforce?

Much like the training installations being cut, operational units also are being slashed, often with direct impact on the local economies. For example, the Berdsk 67th Special-Purpose Separate Brigade near Novosibirsk has been slated for deactivation. While this decision has interagency ramifications, protesters also claim that approximately 2,000 individuals will feel the impact of the unit’s stand-down and have called for Serdyukov’s dismissal. Anatoliy Lokot, a State Duma member, noted that workers would be fired, adding: “This will lead to social pressure at a time when it is hard to find jobs.” (21) In addition, the Russian navy announced that over 5,000 personnel will be released from its Pacific fleet as part of the reform measures. It is expected that this particular reduction will be completed in the next three to four years. (22)

As the Russian military is reducing manpower in the name of cost savings, a recent proposal has surfaced where immigrants from the former Soviet Republics may be hired on to fill positions in the Army (purportedly as a cost-saving measure). The president of the Academy of Geopolitical Problems, Colonel-General Leonid Ivashov commented, “The new phase of the reform is intended to disarm the army that is capable of repelling external threats and turn it into some sort of police appendage for fighting against its own people, for guarding office buildings.” (23)

When introduced last year, Serdyukov’s reforms already were contentious. Combat fighting doctrine is being changed and thousands of junior and warrant officer positions are being eliminated, along with 200 general officers on the
Russian General Staff. Facility closures and unit deactivations often are emotionally charged events, even in the best of times. With the added pressure and uncertainty of the global economic crisis, the reform efforts, especially those involving potential job loss, likely will continue to draw ire from the Russian population.

Source Notes:
(1) “Pres participating in Defence (sic) Ministry meeting first time,” ITAR-TASS, 17 Mar 09 via Lexis-Nexis.
(2) See The ISCIP Analyst, Volume XV, Number 7 (5 Feb 09) for discussion on training center consolidation.
(3) “Russian Defense Ministry to cut number of military schools to 10 by 2013,” Interfax News Agency, 4 Mar 09 via Lexis-Nexis.
(4) See The ISCIP Analyst, Volume XV, Number 7 (5 Feb 09) for discussion on closing a training facility in Irkutsk.
(6) Ibid.
(7) Ibid.
(9) Ibid.
(11) Ibid.

“Ibid.”


“Russian deputy defence (sic) minister on defence (sic) budget, personnel cuts,” Ekho Moskvy Radio, 7 Mar 09; BBC Monitoring Former Soviet Union – Political, 9 Mar 09 via Lexis-Nexis.


“Russian general says financial crisis not to affect arms procurement,” Izvestiya, Moscow, 6 Mar 09; BBC Monitoring Former Soviet Union – Political, 10 Mar 09 via Lexis-Nexis.

“Ibid.”


“Russia’s Pacific Fleet to cut 5,000 personnel in next 3-4 years,” RIA Novosti, 4 Mar 09 via Lexis-Nexis.

“Russian officers ready to offer resistance to army reform – pundit,” Nakanune.ru news agency, 2 Mar 09; BBC Monitoring Former Soviet Union – Political, 10 Mar 09 via Lexis-Nexis.

The thoughts and opinions expressed in this article are those of the author and do not necessarily reflect the official position of the United States Air Force, Department of Defense, or the United States government.
Russia drives a hard bargain on replacement for START

With the expiration of the first Strategic Arms Reduction Treaty (START-1) pending on December 5 2009, US President Obama’s administration has made negotiating a new agreement to replace START-1 a foreign policy priority. However, recent comments by Russia’s foreign minister offer reason to believe that Moscow has not shifted its demanding position on what should be included in a new treaty; a position that the previous administration in Washington found impossible to accommodate. Russian inflexibility could prove a serious obstacle to the Obama team’s arms control aspirations, unless the team becomes more willing than its predecessors to compromise on some key areas.

On March 7, Russian Foreign Minister Sergei Lavrov spoke at a Plenary Meeting of the Conference on Disarmament in Geneva, where he laid out the Russian position on replacement for START-1. He quoted at length from a statement by Dmitri Medvedev, in which he asserted that a new agreement should be “legally binding,” should place limits on strategic delivery systems, such as intercontinental ballistic missiles, bombers, submarines and even cruise missiles, and should exclude the “possible deployment of strategic offensive arms outside national territory.” (1)

Lavrov went on to add his own list of points that he said would need to be addressed to achieve a successful global arms control regime, ultimately arriving at the goal of a “global zero” point at which nuclear weapons would be eliminated. These included preventing the weaponization of outer space, preventing the deployment of conventionally armed strategic delivery systems, and limiting the number of stored, as well as operationally deployed, nuclear weapons. (2) Additionally, Lavrov noted, “real progress in nuclear disarmament
cannot be achieved in a situation when multilateral efforts to develop strategic [Anti-Ballistic Missile] systems undermine this relationship." (3)

Russia’s terms are rooted in a careful strategic calculus designed to maintain an effective deterrent capability against the United States. While the US maintains the capacity to develop advanced, new strategic weapons systems (and to bring many mothballed variants out of retirement), Russia’s aging nuclear arsenal is not being replaced effectively with new platforms. Despite recently becoming the “top priority” of Russian defense spending, nuclear modernization efforts have been dogged by failure in recent years. (4) Moscow has voiced apprehension that a numerically superior US nuclear arsenal could render Russia vulnerable. Deteriorating arms stockpiles also constitute one reason given for Russian noisy objection to the proposed American deployment of a handful of defensive missiles in east-central Europe. Thus, Russia appears eager to complement its strategic modernization effort with stringent treaty-based restrictions on the deployment of weapons by the United States.

Moscow’s ambitious arms control agenda appears destined to run afoul of several long-term American priorities, notably the keeping of reserve stockpiles of non-deployed nuclear weapons and the creation of a conventionally armed, precision ballistic missile system called “prompt global strike.” (5) Differences on these issues, as well as a desire to end limits on strategic delivery vehicles, undermined efforts to make progress on a new arms control agreement in the waning days of the Bush administration. (6)

Since President Obama has taken office, talks on a treaty have yet to resume. However, his foreign policy team has been making preparations for such negotiations. According to acting State Department spokesman Robert Wood, the drive to replace the START Agreement would be placed on a “fast track” to try to achieve results before the expiration of the present treaty on December 5th. (7) At her recent meeting with Foreign Minister Lavrov, Secretary of State Hillary
Clinton reiterated the arms control priority and explained that she and her Russian counterpart had developed a “work plan” to attempt to get presidential approval of the instructions for their respective negotiators before the April 1st G-20 meeting in London. (8) President Obama added ambition to speed, as he publicly declared his own goal for a new arms control agreement that would facilitate an eighty percent reduction in US and Russian operational nuclear arsenals to a level of 1000 warheads per country. (9)

Reaching agreement on a replacement for START-1 undoubtedly will require compromise, given the current, mutually exclusive goals of the parties. When a new round of talks does begin in earnest, it may become clear whether Washington has decided to forgo some of its priorities in order to expedite completion of a treaty. The US Administration may try to decouple the issue of its ABM system from the larger arms control process, as indicated by the recently leaked “secret letter” outlining a possible American compromise offer on the issue. (10) Nonetheless, Russia’s clear interest in restricting the strategic capabilities of the United States appears likely to undermine Washington’s desire to net a swift foreign policy victory by replacing START-1 before the end of the year.

Source Notes:
(2) Ibid.
(3) Ibid.
Russian Federation: Energy Politics
By Creelea Henderson

Future dim for Russia’s electricity market
It has been said that the Kremlin mistrusts the power of the market to provide energy security. Today it may be said with good cause that the market has become the primary source of energy insecurity in Russia’s power sector. The wave of foreign investment that was supposed to flow to the Russian electricity sector following last year’s massive privatization has dried up as investors struggle with their own domestic issues, forcing the Russian government to decide whether to push ahead with the liberalization of electricity prices as planned, or to wait out the crisis and risk further deterioration of the nation’s power generation and transmission capacity.
Until last year, Russia’s electricity sector, the fifth largest in the world, remained under the exclusive control of a single state-owned company, Unified Energy Systems (UES). In 2008, UES produced over 960 billion kilowatt hours of electricity, sufficient to satisfy domestic demand and to supply power for export to customers in the former Soviet states, Turkey, China, and Finland. (1) For over twenty years, the nation’s generators churned out increasing loads of electricity used to power Russia’s post-Soviet economy without any major capital inputs, and it has been clear for nearly a decade that the sector is desperately in need of a dramatic overhaul to sustain the country’s economic growth. Anatolii Chubais, former head of UES, calculated that in order to reverse the deterioration of the nation’s power facilities and vast transmission grids, the sector would require investment of $850 billion by 2020. (2)

That is a sum the Russian government was either unable or unwilling to commit from the government coffers, which explains why last year, in a singular exception to its drive for nationalization of strategic sectors, the government allowed UES to be dissolved and its assets sold off to foreign companies and investors in the power industry. (3) To attract investors, the government and UES drew up a plan to liberalize electricity tariffs, with industrial consumers paying market price starting in January, 2009, and individual households shifting to market rates by 2011. (4) The tariff liberalization schedule made sense at the time because average Russian incomes were on the rise and industrial demand for power was projected to grow dramatically – four to five percent through 2011. (5)

Since the schedule was drafted, weakening markets have altered the picture considerably, and investors who bought into the electricity sector have been forced to reevaluate their commitment to inject over $183 billion into modernization of the sector. Giant foreign power companies like Italy’s Eni, Finland’s Fortum, and Germany’s E.on have all put their investment programs on
hold, while the United Arab Emirates’ Dubai World already has withdrawn its multibillion dollar bid. (6) Mikhail Slobodin, president of Integrated Energy Systems Holding, a company that bought into the privatization scheme, said recently, “We invested in a different country – growth in demand and forecast lack of capacity … the market model was created for growth.” (7)

In early 2009, industrial consumers switched to free market prices for electricity. Soon thereafter, electricity use plummeted across the country – 4.8 percent in February coupled with a 7.7 percent decline in January, bringing Russian power consumption down to 2006 levels in the worst drop in industrial output on record. (8) With demand tumbling, free-market prices for electricity have followed, falling by one-third in the first three months of the year. In four regions, the free-market prices paid by industrial consumers actually have fallen below the state-subsidized tariffs paid by individual households. (9) Electrical generation plants in the Ural mountains already are operating at a loss as the free-market price of power falls below production costs. Analysts are predicting that the losses will continue over the next three years, at least. “No one – not the Energy Ministry, not the regulators – can say even roughly what the next three years will hold,” said Vladimir Shkatov, deputy head of Market Council, a non-profit energy watchdog organization. (10)

That uncertainty is playing havoc with the new owners of Russia’s electricity plants, who rely on long-term revenue projections to justify expenditures and to prove their viability to the bank. In spite of dark forecasts, investors are urging the Russian government not to abandon its price liberalization program, but to push ahead with plans to raise the share of consumers paying free-market prices to 50 percent in July 2009, up from the current share of 30 percent. (11) Such a move could bring some measure of predictability to the power sector, but the social implications of introducing free-market prices in a time of falling industrial output, stagnating wages and rising unemployment may prove more than the government is willing to risk. Until the government decides, however, no
investment will flow to the nation’s electricity sector. Without substantial investment, the unmitigated decay of the sector will sap Russia’s strength severely when the crisis eventually subsides.

Source Notes:
(5) “Electricity: After the Breakup,” Russia Forum Buzz, 6 Feb 09 via (http://therussiaforum.com/2009/02/05/06022009/).
(7) “Electricity: After the Breakup,” Russia Forum Buzz, 6 Feb 09 via (http://therussiaforum.com/2009/02/05/06022009/).
(9) Ibid.
(10) Ibid.
(11) “Electricity: After the Breakup,” Russia Forum Buzz, 6 Feb 09 via (http://therussiaforum.com/2009/02/05/06022009/).

Russian Federation: Special Feature: Russia and Iran
Arms, basing rights, and continuity

In September 2008, then-US Vice President Dick Cheney exposed concern about Russia and Syria. "Russian arms-dealing has endangered the prospects for peace and freedom in [the Middle East],” Mr. Cheney told reporters at a political-economic summit in Cernobbio, Italy. He identified Russia as a primary source of weapons that eventually are funneled by Syria and Iran to Hizballah, and then continued, “This chain of aggressive moves and diplomatic reversals has only intensified the concern that many have about Russia's larger objectives.” (1)

Although he was not specific, Mr. Cheney probably was referring to Syrian President Bashar Al-Assad’s late-August weapons-shopping trip to the Russian presidential residence in Sochi, where he met with Foreign Minister Sergei Lavrov and President Dmitri Medvedev. As it does with Iran, Russia maintained that it would sell only defensive weapons to Damascus. (2)

However, for Syria, the ensuing six months have culminated in changing rhetoric from the new administration in Washington. With the expressed intent of isolating Iran, Secretary of State Hillary Clinton earlier this month sent her acting assistant secretary for Near Eastern affairs, Jeffrey Feltman, and National Security Council official Daniel Shapiro to Damascus to hold talks with high-level Syrian government representatives. For her part, Clinton spoke briefly with Syrian Foreign Minister Walid Muallam on the sidelines of a conference in Egypt on March 2, before meeting Lavrov in Switzerland on March 5. Moreover, Syria’s major antagonists in the Arab world, Saudi Arabia and Egypt, are attempting to hew a new path, with Saudi Foreign Minister Prince Saud Al-Faisal declaring a few weeks ago, “We have dug a deep pit and buried our differences and will not return to past disputes but will look forward to the future.” (3)
In light of the present bounty of guarded optimism from Syria’s past adversaries, Russia has had little to say. It quietly maintains the patron-client relationship it has held with Syria, off and on, since the signing of the Treaty of Friendship and Cooperation in 1980. Although the relationship deteriorated during the Gorbachev era as Russia normalized relations with Israel, Russia and Syria have resumed cooperation steadily in the intervening years.

As is the case with Iran, Russia appears to be the most important, but not the only, supplier of weapons to Syria; however, while Iran has purchased hundreds of millions of dollars worth of Russian military technology, Syria’s purchases so far are less extensive and apparently based on credit. (4) Another option is for Syria to compensate Russia with naval basing rights. In late January 2009, a flurry of reports emanated from Russian news agencies, claiming that Russia would set up a naval base in the Syrian port of Tartus; in subsequent days, a Russian naval spokesman disputed the reports, saying that they were inaccurate and did not represent an “official position.” (5) Finally, a month later, the speaker of the Russian Federation Council, Sergei Mironov, seemed to give the extension of Russian bases to the Mediterranean a green light, stating that Russia must protect “its national interests not only along the perimeter of its borders, but … those parts of the world where it considers [it] important and necessary to do that. … The experience shows that the … ocean will remain the place where the interests of different states will clash. … Thus the appearance of maybe not bases but friendly ports.” (6)

Outside the military realm, Russia has been assisting Syria with its energy infrastructure. Last month, Tatneft announced the discovery of “significant” oil reserves in Syria’s eastern desert that should help to assuage Syria’s falling oil production. (7) Additionally, several Russian energy firms—including Tatneft, NOVATEK and Stroitransgas—are working on developing Syria’s natural gas production capabilities. On February 12, Stroitransgas announced that, over the next two years, it would account for more than half of the expected increase in
Syria’s gas output, which the company expects to rise to 24 million cubic meters per day. However, considering that Syrian domestic gas need is expected to rise to 30 million cubic meters per day in the same time frame, these projects as yet do not appear to be large-scale moneymakers. (8)

Given that Syria seems to be a charity case, commentators have speculated on the non-material benefits Russia may gain from the relationship of the two countries. In the ISCIP journal Perspective (May 2008), US Army War College Professor Stephen Blank writes, “Russian officials apparently believe that being Syria’s patron demonstrates Moscow’s relevance to the Middle East as an indispensable great power and confirms its possession of levers that could advance the peace process along with Russian political, economic, and strategic interests in the region.” (9) However Russia may perceive the results of its relationship with Syria, by avoiding overly enthusiastic rhetoric regarding Damascus, Russia indeed has changed the way the relationship is perceived. For example, senior Israeli government officials told the Jerusalem Post that they would prefer Russia, rather than France, to host the next Middle East peace conference. "The French are trying to do everything to paint a moderate portrait of Assad … [and] creating an illusion of Syria, as if they are not reading the papers or intelligence documents,” the officials said. (10)

Is France attempting to replace Russia’s role as Syria’s senior partner? Barring a peace agreement between Syria and Israel, it is impossible to envision any Western nation exporting arms to Syria, but French public and private enterprises would be able to fulfill virtually any other role currently fulfilled by Russia. In September 2008, France and Syria signed several agreements guaranteeing French assistance in the development of Syria’s oil, gas, and transportation infrastructure. (11)
Yet, if Syria demonstrates obstructionist tendencies in the Israeli-Palestinian dialogue, or if Syria accelerates its cooperation with Hizballah, it is difficult to envision France deepening its relationship with Damascus.

Source Notes:
(5) “Russia Said Eyeing Socotra for Basing Facility,” Vedomosti, 22 Jan 09; “Russia not planning to set up naval bases in Syria, Libya, Yemen: Navy spokesman,” Interfax, 19 Jan 09; OSC Translated Text via World News Connection.
(6) “Russia must protect its interests not only along borders – speaker,” ITAR-TASS, 25 Feb 09 via Dow Jones Factiva.
(8) “Stroitransgas Plans Syria Gas Output Boost,” NEFTE Compass, 12 Feb 09 via Dow Jones Factiva.
(11) “Syria, France sign agreements on oil, gas, transport cooperation,” SANA News Agency, 6 Sept 08 via BBC Monitoring Middle East – Political.
Newly Independent States: Caucasus

By Robyn Angley

ARMENIA

Financial crisis

As recently as January, Armenian officials contended that the country was weathering the global economic situation positively. In February, in a swift reversal, Yerevan altered its rhetoric and turned to the IMF for considerable support, as a result of which the IMF has approved a $540 million loan to Armenia. Approximately $240 million of the loan is available for immediate use. (1) In response to the crisis, Armenia has reinstituted a floating exchange rate for its dram, with the intent of boosting its exports. (2) Previously, the Central Bank had pursued a managed floating exchange rate, in which the government intervened to shore up the dram. Officials say the Dram could fluctuate from a rate of 306 dram to 1 USD to between 360 and 380 dram to 1 USD, a decline in its value of up to 24 percent. (3) The World Bank approved $35 million in “fast track” funds to Armenia in late February to create jobs and assist in stabilizing the economic situation. (4)

Despite its proclamations of economic stability, Armenia actually has been applying for help from numerous sources since January. In that month, Yerevan solicited a loan from Moscow, the final negotiated amount of which was $500 million. (5) Armenia also was reported to have applied to China for a loan of $2 billion. (6)

A significant portion of Armenia’s economic troubles is a spillover effect from Russia’s turbulent financial situation. Remittances from Armenians working abroad, most notably in Russia, are a valuable source of income, amounting to $1.6 billion in 2008 and constituting around 20 percent of Armenia’s GDP. (7) While Armenian migrant workers are feeling the pinch abroad, their families are
facing rising unemployment at home. The number of people looking for jobs in Armenia increased by 4,500 in the space of a month (December 2008 to January 2009). (8)

The fragile geopolitical situation in the region has prompted subtle shifts in multiple capitals. In Azerbaijan, where a recent referendum made it possible for President Ilham Aliyev to hold office indefinitely, officials have been negotiating deals with Iran, particularly with regard to Baku’s energy sector. Yerevan also has been strengthening ties with Tehran. In December, the Armenian energy minister announced a joint oil pipeline project that would run from the city of Tabriz in Iran to Eraskh, Armenia. (9) Construction on the project should begin later this year. (10) That same month, representatives of the two countries signed cooperation agreements in several sectors, including a deal for Iranian investments in Armenian power lines to the tune of 75 million euros. (11) In a recent visit to Yerevan, Iranian Foreign Minister Manuchehr Mottaki stressed the strategic nature of the Iran-Armenia relationship and discussed the planned project of a railroad connecting Armenia and Iran. (12) Iran also signed an agreement on 13 March with Russia and Azerbaijan for a joint railroad project that would connect Russia and Iran through Azerbaijan. (13) (The portion still needing to be built consists mostly of the segment connecting Iran and Azerbaijan.) The pursuit of these projects signifies Iran’s attempt to become an important regional actor and transportation hub. While the global financial crisis represents a disaster for many, it also poses an opportunity for some.

GEORGIA
Open for (Russian) business
In December, Russian and Georgian representatives signed a memorandum for joint control of the Enguri hydro power plant, the largest in the region. The Russian side will be represented by Inter RAO, a state-controlled firm. (14) The final details for the official contract have yet to be resolved. Discussing the proposed deal, Saakashvili said, “We’re not going to hinder Russian companies
from coming to Georgia. The more business interest we get, the less political pressure there will be.” (15) It is possible that Georgia could not avoid Russian involvement at the Enguri plant, due to the facility’s location close to the Abkhaz border. All the same, Saakashvili should not forget where else Russia is investing its money (not to mention Moscow’s tendency to use state-owned companies to advance its regional agenda). Moscow recently signed agreements to provide nearly $68 million in aid to separatist Abkhazia and $80 million to South Ossetia (with an additional $244 million to Tskhinvali as a recovery package from the August fighting). (16)

Source Notes:
(2) Ibid.
(5) “Russia to grant Armenia $500 mln loan - PM Putin,” 27 Feb 09, RIA Novosti via Lexis-Nexis.
(9) “Armenia, Iran to build fuel pipeline: minister,” Agence France Presse, 22 Dec 08 via Lexis-Nexis.
Newly Independent States: Central Asia

By Monika Shepherd

Central Asia’s water dilemma continues to make waves

As summer draws ever closer, the Central Asian states remain locked in what thus far seems to be an intractable dispute over the management of the region’s water resources. The Kyrgyz and Tajik governments remain steadfast in their intentions to build new dams and hydropower stations to meet domestic demands for electricity, while the Uzbek and Turkmen presidents insist that before construction can begin on any new hydroelectric facilities, thorough studies must be conducted on how they might affect the environment and neighboring states. (1)
Kyrgyzstan’s and Tajikistan’s residents continue to contend with severe power shortages, due to below-normal water levels in their countries’ reservoirs. Meanwhile, summer is drawing ever nearer, when rainfall amounts are at their lowest and the need for irrigation water is highest, at a time when, according to one hydroelectric specialist in Tashkent, average water flows in the Amu and Syr Daryo rivers are at only 70% of their normal levels. (2)

The need for a regional agreement on sharing water resources never has been more urgent, and yet, perhaps driven partly out of a desperation generated by the knowledge that existing water resources are insufficient, the Central Asian leaders seem to be moving ever further away from even an attempt at cooperation. In fact, at times, each government appears to be pursuing its own national interest above those of everyone else more doggedly than ever.

Tashkent has taken refuge in the mantle of international law as embodied in the UN convention on using transborder water resources, to which Uzbekistan is a signatory. At a recent televised roundtable held in Tashkent to discuss the “rational” use of water, parliament member Ziyodulla Ubaidullaev commented: “Based on this convention, the construction of energy facilities on transborder rivers should be carried out in line with international examination stipulated by international law. In this context, the work currently being carried out in Tajikistan and Kyrgyzstan [to construct hydroelectric power stations on transborder rivers] should be transparent and meet international law.” [Brackets in original source.] His colleague, Yoqub Fattoev, stated the issue somewhat more clearly, leaving no ambiguity as to whose “international” interests are at stake: “We, neighbours, should approach this issue seriously. The water resources should be used taking into account the interests of the countries situated on the lower reaches of the [Amu Darya and Syr Darya] rivers [in the Central Asian region], specifically Uzbekistan, Turkmenistan and Kazakhstan.” [Brackets in original source.] (3)
Abandoning its usual policy of neutrality in favor of protecting its access to irrigation water, the Turkmen government joined Uzbekistan’s side in the fray, when President Gurbanguly Berdimuhammedow arrived for a state visit to Tashkent in late February. A summary of their discussion was released by Narodnoye slovo on March 3, including their discussion of water resources: “The presidents discussed water and energy problems in Central Asia. They noted that these issues should be considered on the basis of universally recognized norms and principles of international law taking into account the interests of all countries of the region and with the participation of international organizations. At the same time, the leaders stressed the need to prevent water flow from decreasing in transborder rivers and also the necessity to carry out independent international technical, economic and ecological examination in implementing energy projects on transborder rivers. The examination should be made by the interested sides and based on principles of openness and full awareness.” (4)

Although the tone of this statement is some more muted and diplomatic than Mr. Fattoev’s words are, nevertheless, the message to the Kyrgyz and Tajik governments is quite clear: any projects involving water usage that could negatively affect the amount of water that reaches Uzbekistan and Turkmenistan should be subject to review by those countries’ leaderships. The potential consequences for violating this principle have not been spelled out yet. Water from the Amu and Syr Daryo rivers is crucial for Uzbekistan and Turkmenistan’s agricultural sectors, thus it comes as no surprise that these two states would join forces in defending their interests. Unfortunately, barring torrential downpours over the next few weeks, it appears that there simply is not enough water to meet the region’s needs, which begs the question: why do the Kyrgyz and Tajik governments continue to pursue the goal of increasing hydroelectric power generation, to the detriment of the entire region, including their own countries? To be sure, Central Asia’s irrigation system undoubtedly needs to be renovated in order to allow water to be delivered more efficiently, reducing the amount of water required for irrigation in the first place, but that would solve only a small
part of the problem. The Central Asian states’ need for energy equals their need for water, and both issues must be addressed together.

Kyrgyz Prime Minister Igor Chudinov appeared to recognize this when he addressed the Fifth World Water Forum in Istanbul last week: “… Kyrgyzstan thinks that water problems must not be considered separately from the problems of the power generating system because compensation for the accumulation of irrigation water and compensation for the upkeep of hydroelectric facilities are as vital to the Kyrgyz and Tajik peoples as the sufficiency of irrigation water to Uzbek and Kazakh farm producers.” (5) Chudinov blamed the 2008 energy and water crises principally on the collapse of a 1996 agreement between Kyrgyzstan, Kazakhstan, and Uzbekistan on energy delivery, water usage and natural gas pipes, that was based on the system of water resource management adopted during the Soviet period. One of this system’s basic tenets, which reportedly was incorporated into the 1996 treaty, was that Uzbekistan and Kazakhstan would provide fuel and financial compensation to Kyrgyzstan and Tajikistan during the winter months, allowing these two countries to generate less hydropower and thereby build up sufficient water reserves to meet both the region’s energy and water needs in the spring and summer. (6) New agreements enshrining this principle and including Turkmenistan were signed last fall, in an attempt to ward off new water shortages, but Tashkent shirked its part of the deal almost immediately, citing “technical” problems, as well as payment arrears for transit fees owed by Tajikistan’s state electric company.

Meanwhile, both Bishkek and Dushanbe are forging ahead with their plans to build new dams and hydropower stations; Kyrgyzstan with the help of Russian investment, Tajikistan with Iranian financing. The Tajik and Kyrgyz presidents’ refusals, thus far, to abandon their hydropower projects is also understandable, in the light of the widespread power shortages, with which both countries have been grappling since winter 2008. The Tajik government has had to reduce electricity supplies not only to private residents and small businesses, but to its
most important industries, not to mention being forced to shut down schools, hospitals, etc. This situation clearly is untenable; however the strategies currently being pursued by all of the affected actors likely will exacerbate the crisis even further and bring them ever closer to open conflict with one another.

Prime Minister Chudinov’s proposal to re-adopt the main principles of the Soviet water management agreement may be one place to start, but it is no longer enough – all of the Central Asian states, especially the two that rely most heavily on hydropower, must seek new, non-water based methods for generating electrical power, or face permanent electricity rationing.

Source Notes:
(2) Ibid.
(3) “Uzbek MPs say Tajik, Kyrgyz hydro-energy projects should be transparent,” 5 Mar 09, Uzbek Television First Channel; BBC Worldwide Monitoring via Lexis-Nexis Academic.
(6) “Prime Minister Chudinov: Kyrgyzstan ready for cooperation on water energy issues with all countries,” 18 Mar 09, AKIpress via Lexis-Nexis Academic.
UKRAINE

Ukraine’s gas gamble

On 23 March, Ukraine’s leaders surprised many by signing a joint declaration with the European Union that could provide $2.5 billion to modernize the country’s gas transportation network. Although the agreement does not provide money specifically from either the EU or its member countries, it sends an important signal to the international community about Ukraine’s desire both to increase its gas transit reliability and to maintain complete control of its pipeline system.

On paper, the Declaration suggests that those lobbying the EU against Gazprom’s planned construction of two new pipelines may have gained a foothold.

For several years, Russia’s Gazprom has promoted two planned pipelines – the South Stream pipeline from Russia to Italy and Austria and the Nord Stream pipeline from Russia to Germany. The South Stream line is projected to add up to 47 billion cubic meters per year of additional transit capacity from Russia to Europe, while the Nord Stream line reportedly would add 55 billion cubic meters.

However, according to the EU-Ukraine Declaration, if the envisioned modernization of Ukraine’s transit pipelines is undertaken, that country’s pipeline capacity could increase by 60 billion cubic meters per year from about 2015. (1) This would undermine severely the argument that both the Nord Stream and South Stream pipelines are necessary in order to increase capacity of gas flowing from Russia.

This is particularly true since, on 10 March, Russian Prime Minister Vladimir Putin placed the cost of the South Stream pipeline construction at “around 10 billion euros,” or 12.7 billion dollars. (2) South Stream’s original plans called for a
capacity of just 31 billion cubic meters per year, and it is unclear if the Kremlin’s recent announcement of an additional 16 billion cubic meters is included in the cost.

Regardless, the planned capacity of South Stream (47 bcm) is well below the potential capacity that would be generated under the EU-supported Ukraine modernization plan (60 bcm) – with the Ukraine plan costing about $10 billion less. Additionally, Putin has suggested that South Stream would be “commissioned in 2015,” whereas the accepted Ukraine-EU Master Plan for pipeline modernization suggests that capacity could begin to increase within three years. (3)

Realization of the Nord Stream pipeline is much further along in the permit and funding process than South Stream, with Germany backing the project aggressively. Currently, Sweden and the Baltic States continue to express concerns about the environmental effects of laying the line under the Baltic Sea, but primary opposition to the line comes in large part from those concerned about the pipeline’s potential geopolitical effect. The Baltics, along with Poland, have warned consistently against allowing Russia to isolate individual states, thereby creating the possibility of cutting supplies to those countries for political reasons.

Mikhail Korchemkin, executive director of East European Gas Analysis, recently suggested that the two lines technically are not necessary to provide Europe’s gas. “I strongly believe that Gazprom wants to build an excessive export capacity to be able to cut off supplies to any East European country without affecting exports to other EU countries. No other gas exporter has spare pipelines," he said. (4) These statements were made before Ukraine and the EU announced a potential expansion of capacity of 60 bcm per year.

Given this question about necessary capacity, Prime Minister Vladimir Putin reacted quickly and sharply to the EU-Ukraine Declaration, threatening to review
ties with the EU. Russia also cancelled next week’s planned talks in Moscow
between Putin and Ukrainian Prime Minister Yulia Tymoshenko.

Curiously, no Russian leader has questioned the validity of the conclusion about
potential increased capacity. Given that this figure was provided by Ukraine, with
limited EU participation, it would seem that the 60 bcm figure would be a prime
target for dispute. However, the lack of contention over this point and the rapid
response of Putin suggest that, in fact, there must be a significant level of
increased capacity available in Ukraine’s existing network.

It appears that Russia rather would construct additional lines bypassing Ukraine,
thereby controlling the gas transit process completely from beginning to end.
Using Ukraine’s potential capacity would leave Russia dependent on Ukraine for
transiting an increasing amount of gas. Disagreements between the two
countries over Ukraine’s domestic gas supply have resulted in two gas
shutdowns, which caused serious gas shortages in a number of EU countries.
There is no guarantee, of course, that disagreements with another country
receiving direct supplies from Russia would not result in a similar shutdown.

Although the EU and Ukraine appear committed to this process, there are many
questions that must be resolved – including funding and domestic corruption
issues.

Among other things, the declaration commits Ukraine to ensuring transparent
operation of its gas network, setting tariffs at a rate that will “reflect actual costs
incurred,” providing third-party access to storage facilities, and the introduction of
EU-accepted health, safety and environmental standards. (5)

In return, the European Commission, Ukraine, and “creditors” will “cooperate in
seeking to establish a technical co-ordinating (sic) council unit within Naftogaz of
Ukraine.” This council would create an EU-approved “full modernization
business plan” for Ukraine’s gas transportation system, and would help arrange the funding to undertake the system’s modernization, while overseeing actual work performed. (6)

The wording is typically vague and allows for the possibility that one or both sides will backtrack. At the moment, Ukraine, at least, seems to understand that this should not be allowed to happen.

The document goes farther than any other agreement between Ukraine and the EU regarding its gas transit system and seems to reflect a growing understanding that the country is facing the possibility of becoming unable to fulfill its transit role. Its pipes and pumping stations are old—some are decades old—and have received little attention. Given that this transit role is Ukraine’s most important link with Europe, even the country’s fractured and feuding leaders agree that something must be done.

Whether these leaders can continue to work together in the face of upcoming presidential elections (or constitutional changes eliminating the presidency) is a major question. Prime Minister Tymoshenko has worked hard in recent months to forge a positive relationship with Russia, and these efforts have made her the target of attacks from President Yushchenko. Her support for this measure could undermine her nascent working relationship with Putin, putting their most recent gas deal in danger. It is unlikely, however, that the politically-astute Tymoshenko did not anticipate some Russian backlash and plan accordingly. Regardless, the EU never has been unified or resolute in its relations with Russia; should Putin provide serious pressure it is unclear whether the EU will, in fact, move forward.

The Declaration suggests that Ukraine has rejected the idea of a consortium of governments overseeing/profiting from their network in exchange for funding. This consortium idea was supported by Russia and Yushchenko.
Currently, it is unclear whether the EU can or will follow through with funding for the project as it is now envisioned. Although the EBRD, World Bank, and European Investment Bank signed the Declaration as a signal of their intent to locate funding, this is, in essence, a paper promise. On Wednesday, Tymoshenko underscored that point during a visit to Japan, where she met with representatives of several Japanese financial institutions in an attempt to locate non-EU funding. Given the global financial crisis, it would be an understatement to suggest that Tymoshenko will have a difficult job.

The next six months will show much about the real feasibility of this modernization project. Although it appears on paper to be to the great advantage of both Europe and Russia, money and politics might easily derail it.

Source Notes:
(4) “Gazprom's plans for South Stream gas pipeline become more ambitious,” BusinessNewsEurope, 13 Feb 09 via http://businessneweurope.eu/story1451
(6) Ibid.